



Dave Yost • Auditor of State



**NEW CHOICES COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis .....	3
Statement of Net Assets/Accumulated Deficit - June 30, 2010 .....	8
Statement of Revenues, Expenses, and Changes in Net Assets/Accumulated Deficit For the Fiscal Year Ended June 30, 2010 .....	9
Statement of Cash Flows For the Fiscal Year Ended June 30, 2010 .....	10
Notes to the Basic Financial Statements .....	11
Schedule of Federal Awards Receipts and Expenditures – For the Fiscal Year Ended June 30, 2010 .....	21
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	22
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	23
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control over Compliance Required by <i>OMB Circular A-133</i> .....	25
Schedule of Findings.....	27
Corrective Action Plan.....	31
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	33

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of New Choices Community School, Montgomery County, (the School), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of New Choices Community School, Montgomery County, as of June 30, 2010 and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As shown in the accompanying financial statements, the School has incurred a working capital deficiency of \$597,053; an operating loss of \$675,504; and an accumulated deficit of \$334,214, that raise substantial doubt about its ability to continue as a going concern. Management's plans with regard to these matters are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In addition, the School has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Rev. Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Rev. Code Section 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The Schedule of Federal Awards Receipts and Expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

February 7, 2011

## NEW CHOICES COMMUNITY SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2010

(Unaudited)

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The discussion and analysis of the New Choices Community School (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

### Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- Total net assets of the School decreased \$13,110 during fiscal year 2010, resulting in an ending accumulated deficit of \$334,214 at June 30, 2010 compared to the accumulated deficit of \$321,104 reported one year prior.
- Total assets increased by \$23,458 during the year due primarily to a significantly larger amount of grants receivable recorded at the end of the current year compared with the prior year. This increase was partially offset by current year depreciation expense, which was the only change in the School's capital assets. The \$85,568 increase in current liabilities was due mainly to payable amounts to the Auditor of State and Ohio Department of Jobs and Family Services which accumulated during the fiscal year.
- The School's operating loss for fiscal year 2010 was \$675,504 compared with an operating loss of \$304,081 reported for the prior year. The most significant factor attributing to the increase in the operating loss incurred was the 28.2 percent decrease in State Foundation revenue for fiscal year 2010. The decrease in State Foundation revenue resulted from a significant decrease in the number of students in 2010 as compared to 2009 as the School consolidated all operations in one school building and eliminated seventh and eighth grades to control operating costs.

### Using this Financial Report

This financial report contains the School's basic financial statements, 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, 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 most private-sector companies use. 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 School's overall position and financial viability, 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.

## NEW CHOICES COMMUNITY SCHOOL

### Management's Discussion and Analysis

For the Year Ended June 30, 2010

(Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2010 compared with fiscal year 2009.

Table 1  
Net Assets/Accumulated Deficit

	<u>2010</u>	<u>2009</u>
Assets:		
Current and other assets	\$ 58,901	\$ 24,741
Capital assets, net	<u>389,422</u>	<u>400,124</u>
Total Assets	<u>448,323</u>	<u>424,865</u>
Liabilities:		
Current liabilities	655,954	570,386
Non-current liabilities	<u>126,583</u>	<u>175,583</u>
Total Liabilities	<u>782,537</u>	<u>745,969</u>
Net Assets:		
Invested in capital assets	213,839	175,541
Restricted	22,670	-
Unrestricted	<u>(570,723)</u>	<u>(496,645)</u>
Total Net Assets(Deficit)	<u>\$ (334,214)</u>	<u>\$ (321,104)</u>

The School's total net assets decreased by \$13,110 at June 30, 2010 compared to one year prior. The increase in assets, primarily intergovernmental grants receivables, was offset by the increase in current liabilities reported at year end. While the School made significant progress in paying off outstanding liabilities of prior years in the recent past, unexpected liabilities were incurred during the current year including considerable amounts owed to the Auditor of State and the Ohio Department of Jobs and Family Services.

As noted in Table 1 above, total liabilities increased by \$36,568 from those reported at June 30, 2009. While the scheduled debt service payments made on the mortgage note payable owed on the school building during the year reduced obligations by \$49,000, the \$85,568 increase in current liabilities, due the reasons discussed above, resulted in the net increase in total liabilities.

Total assets increased by \$23,458 over those reported for fiscal year 2009. Current and other assets reported at year-end increased by \$34,160 over those reported for the prior year due primarily to the increase in governmental grants recognized at year-end as receivables. The amount of federal grants allocated to the School increased dramatically during the current year due to a more focused approach for applying for available grants as well as grants funded through the American Recovery and Reinvestment Act. Net capital assets decreased by 2.7 percent due to current year depreciation expense for fiscal year 2010.

Overall, the School reported an ending accumulated deficit of \$334,214 at June 30, 2010 compared with the \$321,104 deficit reported one year prior. The increase in restricted net assets for the year represents the unobligated financial resources associated with federal and state grant programs remaining at year-end.



**NEW CHOICES COMMUNITY SCHOOL**

## Management's Discussion and Analysis

For the Year Ended June 30, 2010

(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010, as well as revenue and expense comparisons to fiscal year 2009.

Table 2  
Change in Net Assets

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Foundation payments	\$ 1,107,523	\$ 1,542,327
Non Operating Revenues:		
Federal Grants	591,307	145,582
State Grants	12,944	10,747
Sinclair revenue	45,755	204,903
Other revenue	<u>28,035</u>	<u>40,461</u>
Total Revenues	<u>1,785,564</u>	<u>1,944,020</u>
Operating Expenses:		
Salaries	845,086	985,790
Fringe Benefits	293,167	208,782
Purchased services	505,911	563,968
Materials and supplies	102,080	36,281
Depreciation	10,702	11,983
Other expenses	26,081	39,604
Non Operating Expenses		
Penalties and fees	-	14,356
Interest on debt obligations	<u>15,647</u>	<u>20,476</u>
Total Expenses	<u>1,798,674</u>	<u>1,881,240</u>
Change in Net Assets	(13,110)	62,780
Net Assets (Deficit), beginning of year	<u>(321,104)</u>	<u>(383,884)</u>
Net Assets (Deficit), end of year	<u>\$ (334,214)</u>	<u>\$ (321,104)</u>

As shown in Table 2 above, total revenue the School received for fiscal year 2010 was \$158,456 less than the revenue received in the prior year, an 8.2 percent decrease. The funding received through the State Foundation funding program decreased \$434,804 from the levels received in fiscal year 2009. The decrease in State Foundation revenue resulted from a significant decrease in the number of students in 2010 as compared to 2009 as the School consolidated all operations in one school building and eliminated seventh and eighth grades to control operating costs.

While federal grant revenue increased \$445,725 over the prior year, that increase was offset by the \$159,148 decrease in grant funding received through Sinclair Community College due to financial constraints encountered by the College.

## **NEW CHOICES COMMUNITY SCHOOL**

### Management's Discussion and Analysis

For the Year Ended June 30, 2010

(Unaudited)

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The School's total expenses reported for the fiscal year were \$82,566 lower than those reported for the fiscal year 2009, a decrease of 4.4 percent. The two categories of expenses that decreased significantly from the prior year were salaries and purchased services, which decreased by \$140,704 or 14.3 percent, and \$58,057 or 10.3 percent, respectively; due a change in the employment mix at the School as well as management's efforts to reduce unnecessary spending during the year in an ongoing effort to reduce the School's outstanding obligations.

#### **Capital Assets**

At June 30, 2010, the capital assets of the School consisted of \$541,949 of land, buildings and improvement, and furniture and equipment which was offset by \$152,527 in accumulated depreciation resulting in net capital assets of \$389,422. The School had no capital asset purchases during the year while depreciation expense for the year was \$10,702.

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

#### **Debt**

At June 30, 2010, the School had total debt obligations of \$264,897; \$138,314 which is due for payment within the next year. See Notes 9 and 10 to the financial statements for additional information.

The mortgage note payable the School has with a local financial institution for the purchase of the school building comprises \$175,583 of the total debt obligations at year-end. During fiscal year 2010 the School made \$49,000 of scheduled payments on this note with another \$49,000 due to be paid in the subsequent year.

The remaining \$89,314 of loans payable resulted from services rendered in prior fiscal years by Eastway which were not fully reimbursed by the School. This obligation was only recently brought to the School's attention which thought it had paid Eastway in full several years back. The School has attempted to contact Eastway several times regarding this obligation; however, Eastway has yet to respond thereby bring into question the validity of Eastway's claim. Since no repayment schedule has been negotiated with Eastway, the entire balance of the loan is reported as a current liability.

#### **Economic Future**

The School continues to struggle financially as it continues its efforts in addressing the financial obligations of prior years. While the School has settled in full many of those obligations which have accumulated over the past several years, payment of those obligations has limited the cash available to pay the School's day-to-day operating costs. This cash limitation has resulted in the payment of current obligations to be pushed into future periods.

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

**NEW CHOICES COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Year Ended June 30, 2010

(Unaudited)

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**Contacting the School**

This financial report is designed to provide a general overview of the finances of the New Choices Community School, Inc., and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of New Choices Community School, 601 S. Keowee St., Dayton, Ohio 45401 or call (937) 224-8201.

**NEW CHOICES COMMUNITY SCHOOL**  
Statement of Net Assets/Accumulated Deficit  
June 30, 2010

**Assets**

Current assets:

Cash and cash equivalents	\$	5,315
Receivables:		
Intergovernmental		53,586
Total current assets		58,901

Noncurrent assets:

Capital assets:

Non-depreciable		35,215
Depreciable, net of accumulated depreciation		354,207
Total noncurrent assets		389,422

Total assets		448,323
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**Liabilities**

Current liabilities:

Accounts payable		279,009
Accrued wages payable		81,231
Intergovernmental payable		120,523
Compensated absences payable		36,877
Demand loan payable		89,314
Notes payable, current portion		49,000
Total current liabilities		655,954

Noncurrent liabilities:

Notes payable, less current portion		126,583
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Total liabilities		782,537
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**Net assets/accumulated deficit**

Invested in capital assets, net of related debt		213,839
Restricted for specific grant programs		22,670
Unrestricted		(570,723)

Total net assets/accumulated deficit	\$	(334,214)
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See accompanying notes to the financial statements.

**NEW CHOICES COMMUNITY SCHOOL**  
Statement of Revenues, Expenses and Changes in Net Assets/Accumulated Deficit  
For the Fiscal Year Ended June 30, 2010

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**Operating revenues:**

Foundation revenue	\$ <u>1,107,523</u>
Total operating revenues	<u>1,107,523</u>

**Operating expenses:**

Salaries	845,086
Fringe benefits	293,167
Purchased services:	
Sponsor contractual fees	27,747
Other purchased services	478,164
Materials and supplies	102,080
Depreciation	10,702
Other	<u>26,081</u>
Total operating expenses	<u>1,783,027</u>

Operating loss	<u>(675,504)</u>
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**Non-operating revenues and (expenses)**

Federal grants	591,307
State grants	12,944
Sinclair revenue	45,755
Other revenue	28,035
Interest on debt obligations	<u>(15,647)</u>
Total non-operating revenues and (expenses)	<u>662,394</u>

Change in net assets	(13,110)
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Net assets (deficit) at beginning of year	<u>(321,104)</u>
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Net assets (deficit) at end of year	\$ <u>(334,214)</u>
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See accompanying notes to the financial statements.

**NEW CHOICES COMMUNITY SCHOOL**

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2010

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**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**Cash flows from operating activities:**

Cash from State of Ohio	\$ 1,109,871
Cash payments to suppliers for goods and services	(602,831)
Cash payments to employees for services and benefits	<u>(1,086,150)</u>
Net cash used for operating activities	<u>(579,110)</u>

**Cash flows from noncapital financing activities:**

Federal and state grants	592,386
Local grants	45,755
Other non-operating revenues	<u>10,079</u>
Net cash provided by noncapital financing activities	<u>648,220</u>

**Cash flows from capital and related financing activities:**

Principal payments - mortgage note payable	(49,000)
Interest payments - mortgage note payable	<u>(15,647)</u>
Net cash used for capital and related financing activities	<u>(64,647)</u>

Net Increase in Cash and Cash Equivalents	4,463
Cash and Cash Equivalents, Beginning of Year	<u>852</u>
Cash and Cash Equivalents, End of the Year	\$ <u>5,315</u>

**Reconciliation of operating loss to net cash used for  
for operating activities**

Operating loss	\$ (675,504)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	10,702
Changes in assets and liabilities:	
Decrease in intergovernmental receivable related to state foundation program	124
Decrease in accounts payable	(6,592)
Decrease in accrued wages payable	(9,934)
Increase in intergovernmental payable	74,825
Increase in compensated absences payable	<u>27,269</u>
Total Adjustments	<u>96,394</u>
Net cash used for operating activities	\$ <u>(579,110)</u>

See accompanying notes to the financial statements.

## NEW CHOICES COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2010

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#### 1. Description of the School and Reporting Entity:

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

The School was initially approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2001. On June 10, 2005 the Sponsor contract was assigned to St. Aloysius Orphanage (SAO). A new Sponsor contract was entered into between the School and SAO on June 30, 2005 for an original term of July 1, 2005 through June 30, 2007. This contract is extended thereafter for additional one-year terms from July 1 to June 30 unless either party notifies the other in writing at least ninety days prior to June 30 that it does not wish to renew the contract. Neither party has cancelled the contract; therefore, the Sponsor contract with SAO was extended again to cover fiscal year 2010.

The School operates under the direction of a five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 20 staff members who provide services to approximately 165 students.

#### 2. Summary of Significant Accounting Policies:

The School's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements; however, the School has elected not to follow any FASB statements or interpretations after November 30, 1989. The more significant of the School's accounting policies are described below.

##### A. Basis of presentation

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

## NEW CHOICES COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2010

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#### 2. Summary of Significant Accounting Policies: (Continued)

##### B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

##### C. Budgetary process

The School must adopt a spending plan as set forth in the Ohio Revised Code 5705.391, which requires annual appropriations and annual revenue estimates.

##### D. Cash and cash equivalents

All monies the School receives are 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 two-thousand five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation expense is computed using the straight-line method over estimated useful lives as follows: buildings – 40 years; building improvements – 15 years; and equipment – 5 years.



## NEW CHOICES COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2010

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### 2. Summary of Significant Accounting Policies: (Continued)

#### G. Intergovernmental revenues

The School currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

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

#### 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 includes State Foundation payments received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

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

#### I. Accrued liabilities payable

Accounts Payable - payments due to various vendors for goods received or services provided during fiscal year 2010 which were not paid until after the close of the fiscal year.

Accrued Wages Payable - salary payments made after year-end that were for services rendered in rendered in fiscal year 2010. Teaching personnel are paid in 26 equal installments, ending in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2010 for all salary payments made to teaching personnel from July 1, 2010 through August 13, 2010.

Intergovernmental payable - payment for the employer's share of the retirement contribution (\$11,372), workers' compensation (\$635) and Medicare (\$1,178) associated with services rendered during fiscal year 2010 that were paid in the subsequent fiscal year.

In addition, the School owes \$107,338 to various state and local government agencies for obligations occurring prior to June 30, 2010; some of the more significant amounts owed include the Auditor of State \$43,627, the Ohio Department of Jobs and Family Services \$38,909, and the Montgomery County Juvenile Court \$10,172.

#### 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.

## NEW CHOICES COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2010

## 2. Summary of Significant Accounting Policies: (Continued)

### 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 specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

## 3. Cash and Deposits:

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2010, the carrying amount of the School's deposits was \$5,315 and the bank balance was \$28,220, all of which was covered by depository insurance of the Federal Deposit Insurance Corporation (FDIC).

## 4. Capital Assets:

A summary of the School's capital assets for the year ended June 30, 2010, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 35,215	\$ -	\$ -	\$ 35,215
Buildings and improvements	394,065	-	-	394,065
Furniture and equipment	112,669	-	-	112,669
	<u>541,949</u>	<u>-</u>	<u>-</u>	<u>541,949</u>
Less: accumulated depreciation on:				
Buildings and improvements	(30,038)	(10,030)	-	(40,068)
Furniture and equipment	(111,787)	(672)	-	(112,459)
	<u>(141,825)</u>	<u>(10,702)</u>	<u>-</u>	<u>(152,527)</u>
Total net capital assets	<u>\$ 400,124</u>	<u>\$ (10,702)</u>	<u>\$ -</u>	<u>\$ 389,422</u>

## 5. Risk Management:

Property and liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance coverage is provided by Philadelphia insurance company in the following amounts: Professional liability has a \$1 million single occurrence limit and \$3 million aggregate limit. Property is covered for \$945,000. Property content coverage is \$100,000 at the School owned facility. Loss of business income coverage is maximum \$600,000. Automobile liability has a \$1 million combined single limit of liability and no deductible. Employee theft coverage is \$15,000 per occurrence.

## NEW CHOICES COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2010

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#### 5. Risk Management: (Continued)

There has been no reduction in coverage from the prior year and settled claims have not exceeded the School's coverage in any of the past three years.

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

#### 6. Defined Benefit Pension Plans:

##### A. School Employees Retirement System

**Plan Description** - The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension and death obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$37,503, \$12,661 and \$16,992 respectively; 100 percent has been contributed for all fiscal years.

##### B. State Teachers Retirement System

**Plan Description** - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

## NEW CHOICES COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2010

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### 6. Defined Benefits Pension Plans: (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$76,529, \$107,244, and \$133,144 respectively; 100 percent has been contributed for all fiscal years. Contributions to the DC and Combined Plans for fiscal year 2010 were \$4,770 made by the School and \$3,407 made by the plan members.

## NEW CHOICES COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2010

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#### 7. Post-Employment Benefits:

##### A. School Employees Retirement System

Plan Description – The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,350, \$5,920, and \$5,073 respectively; 100 percent has been contributed for all fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$2,230, \$919, and \$801 respectively; 100 percent has been contributed for all fiscal years.

##### B. State Teachers Retirement System

Plan Description – The School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**NEW CHOICES COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2010

7. Post-Employment Benefits: (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School’s contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$5,887, \$8,250, and \$9,510 respectively; 100 percent has been contributed for all fiscal years.

8. Contingencies:

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. Management is not aware of any such disallowed claims which could have a material adverse effect on the overall financial position of the School at June 30, 2010.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2010 revealed an overpayment of state funding to the School by \$2,224 for the year. This amount has been included as a component of intergovernmental payable within these financial statements.

C. State Contract

The School receives 100 percent of its operating income from the State of Ohio under the State Foundation program. Accordingly, the risk exists that the ability to continue the contract with the State of Ohio could affect the financial status of the School.

9. Short-Term Obligation Payable:

A summary of the School’s short term obligation activity for the year follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Loan - Eastway Corp.	\$ 89,314	\$ -	\$ -	\$ 89,314

**NEW CHOICES COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2010

9. Short-Term Obligations Payable: (continued)

On July 1, 2002, the School entered into a contract with Eastway Corporation for management services. Under this contract, Eastway was required to provide core management services to include accounting and reporting, financial, payroll, budgeting, quality assurance, program recruitment and hiring, personnel management, employee relations and employee benefits management. Terms of this contract provided for the receipt of a management fee equal to 10% of the School's total expenses.

In December 2004, the School terminated the contract with Eastway and reverted to the management of its own operation. By agreement dated January 12, 2005, between Eastway Corporation and New Choices Community School (School) a settlement was reached for the liquidation of amounts still payable to Eastway by the School through a down payment and a promissory note. Terms of the agreement provided for a down payment of \$50,000 and a promissory note of \$384,365 repaid through eighteen monthly installments of \$21,353.61 commencing on January 31, 2005 and continuing until June 30, 2006 when the last monthly installment payment shall be due and payable, for a total payment of \$434,365. This note is unsecured and interest-free.

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

During fiscal year 2010, no payments were made to Eastway Corporation on the loan. The remaining loan amount of \$89,314 is considered past due, as the entire loan amount was to be repaid by June 30, 2006, and therefore reported as a current liability.

10. Long-Term Debt Obligation:

The long-term obligation activity of the School for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Amount due within 1 year</u>
Fifth Third Bank					
- Notes Payable	<u>\$ 224,583</u>	<u>\$ -</u>	<u>\$ (49,000)</u>	<u>\$ 175,583</u>	<u>\$ 49,000</u>

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

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

Fiscal Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	49,000	11,724	60,724
2012	49,000	7,993	56,993
2013	49,000	4,222	53,222
2014	<u>28,583</u>	<u>732</u>	<u>29,315</u>
Total	<u>\$ 175,583</u>	<u>\$ 24,671</u>	<u>\$ 200,254</u>

**NEW CHOICES COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2010

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11. Other Purchased Services:

During the fiscal year ended June 30, 2010, other purchased service expenses for services rendered by various vendors were as follows:

Professional & technical services	\$	214,142
Property services		71,736
Communications		3,684
Utilities		60,707
Contract craft or labor		32,902
Other		94,993
	\$	<u>478,164</u>

12. Management's Plan for Continued Existence:

As shown in the accompanying financial statements, the School had a total accumulated deficit at June 30, 2010 of \$334,214 which is primarily due to payables. While the deficit reported for the current year is \$13,110 more than the deficit reported one year prior, management has resolved several of the outstanding obligations from prior fiscal years and plans on continuing to closely monitor future expenditures until all outstanding obligations have been paid in full. Effective in fiscal year 2010, the Board made the difficult decisions to consolidate the operations of the School at one location and eliminated the seventh and eighth grades in an attempt to reduce operating costs incurred. In addition, it is the School's hope that student enrollment will increase over the next few years which would in turn increase the state foundation revenue received.

13. Subsequent Event:

On December 2, 2010 the School borrowed \$38,000 from The Life Skills Center of Middletown, Inc. The promissory note issued in conjunction with this borrowing called for a 4.25% interest rate with repayment due in monthly installments through November 2011. The promissory note is secured with a guaranty by Charter School Specialists, LLC should the School default on payment.



**NEW CHOICES COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>U.S. Department of Agriculture</b>			
<i>Passed through Ohio Department of Education</i>			
<b>Nutrition Cluster:</b>			
School Breakfast Program	10.553	\$50,876	\$50,876
National School Lunch Program	10.555	82,583	82,583
Total Nutrition Cluster		<u>133,459</u>	<u>133,459</u>
Total U.S. Department of Agriculture		<u>133,459</u>	<u>133,459</u>
<b>U.S. Department of Education</b>			
<i>Passed through Ohio Department of Education</i>			
<b>Title I, Part A Cluster:</b>			
Title I Grants to Local Educational Agencies	84.010	237,498	236,775
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	83,555	84,841
Total Title I, Part A Cluster		<u>321,053</u>	<u>321,616</u>
<b>Special Education Cluster:</b>			
Special Education_Grants to States	84.027	17,265	18,551
ARRA - Special Education Grants to States - Recovery Act	84.391	11,374	11,142
Total Special Education Cluster		<u>28,639</u>	<u>29,693</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	2,686	2,995
State Grants for Innovative Programs	84.298		20
Educational Technology State Grants	84.318	2,598	2,901
Improving Teacher Quality State Grants	84.367	4,082	3,545
School Improvement Grants	84.377	11,925	11,925
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	75,111	75,000
Total U.S. Department of Education		<u>446,094</u>	<u>447,695</u>
Total Federal Financial Assistance		<u>\$579,553</u>	<u>\$581,154</u>

*See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.*

**NEW CHOICES COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the New Choices Community School (the School's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.



# Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the business-type activities of New Choices Community School, Montgomery County (the School) as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 7, 2011 wherein we noted that the School has incurred a working capital deficiency of \$597,053; an operating loss of \$675,504; and an accumulated deficit of \$334,214 for the year ended June 30, 2010, which raises substantial doubt about the School's ability to continue as a going concern. The School has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for 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.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated February 7, 2011.

We intend this report solely for the information and use of management, the finance committee, Board of Directors, the Community School's sponsor, federal awarding agencies and pass-through entities, and others within the School. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

February 7, 2011



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *OMB CIRCULAR A-133*

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

To the Board of Directors:

### Compliance

We have audited the compliance of New Choices Community School (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect New Choices Community School's major federal program for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the New Choices Community School complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2010-001.

### Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2010-001 to be a material weakness.

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

We intend this report solely for the information and use of management, the finance committee, management, the Board of Directors, the Community School's sponsor, federal awarding agencies and pass-through entities, and others within the School. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

February 7, 2011

**NEW CHOICES COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I, Part A Cluster: Title I Grants to Local Educational Agencies: CFDA #84.010 ARRA-Title I Grants to Local Educational Agencies: CFDA #84.389
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2010-001
<b>CFDA Title and Number</b>	All CFDA Numbers
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	United States Department of Agriculture United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance and Material Weakness**

**Office of Management and Budget (OMB) Circular A-133 Subpart C, §\_\_.310(b) Schedule of Expenditures of Federal Awards**, states that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

1. List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
2. For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
4. Include notes that describe the significant accounting policies used in preparing the schedule.
5. To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.
6. Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

The School had the ultimate responsibility for ensuring proper posting and expenditure of all federal dollars to the Schedule of Federal Awards Receipts and Expenditures. The School's 2010 Schedule of Federal Awards Receipts and Expenditures had the following errors:



**Finding 2010-001  
(Continued)**

- School Breakfast Program (CFDA #10.553) receipts and expenditures of \$50,876 were not included.
- National School Lunch Program (CFDA #10.555) receipts and expenditures were understated by \$21,198.
- Title 1 Grants to Local Educational Agencies (CFDA #84.010) receipts were overstated by \$7,055.
- School Improvement Grants (CFDA #84.377) receipts and expenditures of \$11,925 were included in CFDA #84.010.
- Title 1 Grants to Local Educational Agencies – Recovery Act (CFDA Act #84.389) expenditures were understated by \$1,286.
- Special Education Grants to States (CFDA #84.027) receipts were overstated by \$4,522.
- Safe and Drug-Free Schools and Communities State Grants (CFDA #84.186) expenditures were understated by \$353.
- State Grants for Innovative Programs (CFDA# 84.298) expenditures were understated by \$20.
- Educational Technology State Grants (CFDA # 84.318) receipts were understated by \$36 and expenditures were understated by \$339.
- Improving Teacher Quality State Grants (CFDA #84.367) receipts were overstated by \$842.
- State Fiscal Stabilization Fund – Education State Grants – Recovery Act (CFDA #84.394) receipts were understated by \$111.

To reduce the risk of inaccurate reporting of federal expenditures and noncompliance with OMB Circular A-133, Subpart C, §\_\_.310(b), due care should be taken in the preparation of the Schedule of Federal Awards Receipts and Expenditures. The Schedule should be reviewed after preparation and tied to the underlying cash reports of the School for accuracy.

**Officials' Response:**

See officials' response on page 31

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**NEW CHOICES COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-001	This was the first year that School has prepared a detailed federal schedule and we did not always use the correct expenditure and/or receipt amounts. The School will monitor these entries for FY2011 with more diligence.	06/30/11	Arlene Wilson, Treasurer

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on February 18, 2009.
2. We read the policy to determine it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - 1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - 2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - 3) A procedure for reporting prohibited incidents;
  - 4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
    - 5) A procedure for documenting any prohibited incident that is reported;
    - 6) A procedure for responding to and investigating any reported incident;
  - 7) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
  - 8) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

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3. We read the policy, noting it did not include the following requirements from Ohio Rev. Code Section 3313.666(B):
  - 1) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
  - 2) A requirement that the school administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



**Dave Yost**  
Auditor of State

February 7, 2011



# Dave Yost • Auditor of State

**NEW CHOICES COMMUNITY SCHOOL**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 31, 2011**