



**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, Inc.
Montgomery County
20 West First Street
Dayton, OH 45402

To the Board of Governance:

We have audited the accompanying financial statement of New Choices Community School, Inc., Montgomery County, (the School), as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Choices Community School, Inc., Montgomery County, as of June 30, 2002, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by 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 financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

April 14, 2003

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**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

ASSETS

Current Assets

Cash	\$3,981
Intergovernmental Receivable	<u>154,427</u>

Total Current Assets 158,408

Non-Current Assets

Equipment (Net of Accumulated Depreciation)	<u>18,890</u>
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Total Assets 177,298

LIABILITIES AND EQUITY

Liabilities

Accounts Payable	97,132
Intergovernmental Payable	12,648
Compensated Absences Payable	<u>13,315</u>
Total Liabilities	123,095

Fund Equity

Retained Earnings	<u>54,203</u>
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Total Liabilities and Fund Equity \$177,298

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

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues	
State Foundation	\$171,060
Disadvantage Pupil Impact Aid	3,507
Miscellaneous	<u>414</u>
Total Operating Revenues	<u>174,981</u>
Operating Expenses	
Salaries	261,735
Fringe Benefits	70,604
Purchased Services	172,132
Materials and Supplies	20,345
Depreciation	4,722
Other Operating Expenses	<u>26,264</u>
Total Operating Expenses	<u>555,802</u>
Operating Loss	<u>(380,821)</u>
Non-Operating Revenues	
Federal Grants	304,349
State Grants	55,675
Private Grants	<u>75,000</u>
Total Non-Operating Revenues	<u>435,024</u>
Net Income	54,203
Retained Earnings at Beginning of Year	<u>0</u>
Retained Earnings at End of Year	<u><u>\$54,203</u></u>

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

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase in Cash and Cash Equivalents

Cash Flows Provided By Operating Activities

Cash Provided By State of Ohio	\$174,567
Cash Provided By Miscellaneous Sources	414
Cash Used For Employees for Services	(251,981)
Cash Used for Employee Benefits	(67,043)
Cash Used For Suppliers for Goods and Services	<u>(132,573)</u>

Net Cash Used For Operating Activities (276,616)

Cash Flows Provided By Noncapital Financing Activities

Cash Provided By Private Grants	75,000
Cash Provided By Federal and State Grants	<u>205,597</u>

Net Cash Provided By Noncapital Financing Activity 280,597

Net Increase in Cash 3,981

Cash at Beginning of Year 0

Cash at End of Year 3,981

**Reconciliation of Operating Loss to Net Cash
Used For Operating Activities**

Operating Loss (380,821)

**Adjustments to Reconcile Operating Loss to Net
Cash Used For Operating Activities**

Depreciation 4,722

Change in Assets and Liabilities

Increase in Accounts Payable	73,520
Increase in Intergovernmental Payable	12,648
Increase in Compensated Absences Payable	<u>13,315</u>

Net Cash Used For Operating Activities (\$276,616)

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

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**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

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 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 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 a five-member Board of Trustees. 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 Trustees controls the School's one instructional/support facility staffed by 1 non-certified and 6 certificated teaching personnel who provide services to 30 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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 is used to track and report on its financial activities. 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, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and 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 on the balance sheet. Equity consists of retained earnings. 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.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and the Ohio Department of Education (Sponsor) does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

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

E. Fixed Assets and Depreciation

Fixed 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.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) 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 \$150,000 to offset start-up costs of the School.

Additionally, the School applied for and received approval for federal grant monies totaling \$150,000.

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Compensated Absences

Benefits are earned on a per pay period bases. The School records a liability for accumulated unused paid leave time when earned for all employees.

H. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2001, are reported as accrued liabilities in the accompanying financial statements.

I. 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. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

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

J. Private Grants

The School received \$50,000 from the Mathile Family Foundation and \$25,000 from the Fordam Foundation.

3. DEPOSITS AND INVESTMENTS

At June 30, 2002 the School had a cash balance of \$3,981, which equaled the bank balance. The entire bank balance was covered by federal depository insurance.

4. RECEIVABLES

Receivables at June 30, 2002 consisted of intergovernmental (federal grants and state foundation) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$23,612
Less: Accumulated Depreciation	<u>4,722</u>
Net Fixed Assets	<u>\$18,890</u>

6. RISK MANAGEMENT

A. Property and Liability

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

Professional liability is protected 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 Worker's 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.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent. From the School's contribution for the year ended June 30, 2002, 5.46% of covered payroll was used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002 was \$3,231.

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent. From the School's contribution for the year ended June 30, 2002, 9.5% of covered payroll was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2002 was \$23,808.

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS).

Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$9,847 during the 2002 fiscal year.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits equaled \$1,971 during the 2002 fiscal year.

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. CONTINGENCIES

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, 2002.

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 2003. The fiscal year 2002 adjustment to state funding for the School is a reduction in the amount of \$12,648, for fiscal year 2003. This amount is reflected in the financial statements as intergovernmental payable.

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio Community (IE Charter) Schools Program violates the State Constitution and State Laws. The effect of this suit, if any, on the school is not presently determinable.

10. MANAGEMENT SERVICES CONTRACT

The School entered into a one-year contract on July 1, 2001, with Eastway Corporation for management services. Under the contract, Eastway is 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. For the year ended June 30, 2002, the School expensed \$79,238 under this contract. One School Board member is also Chief Executive Officer of Eastway Corporation.

A payable for expenses incurred by the School but paid by Eastway has been reported as Accounts Payable. At June 30, 2002, this amount was \$97,132.

11. PURCHASED SERVICES

For the period ended June 30, 2002 purchased services expense were payments for services rendered by various vendors as follows:

Management company expenses	\$79,238
Occupancy costs	28,111
Travel	4,811
Advertising and promotion	12,257
Food service	18,163
Trade services	13,667
Utilities	<u>15,885</u>
TOTAL	<u>\$172,132</u>

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

12. 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NEW CHOICES COMMUNITY SCHOOL, INC.

MONTGOMERY COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED June 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	133769-05PU-2002	10.553	\$549	\$1,098
National School Lunch Program	133769-LLP4-2002	10.555	994	1,990
Total U.S. Department of Agriculture - Nutrition Cluster			1,543	3,088
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Public Charter Schools Program - Start - Up Grant (Title X, Part C of the ESEA)	133769-CH-S1-02P	84.282A	150,000	300,000
Totals			<u>\$151,543</u>	<u>\$303,088</u>

The accompanying notes to this schedule are an integral part of this schedule.

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND
EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTION

Cash receipts from the U. S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

New Choices Community School, Inc.
Montgomery County
20 West First Street
Dayton, Ohio 45402

We have audited the financial statements of New Choices Community School, Inc. (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated April 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10357-001 through 2002-10357-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated April 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-10357-004.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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 to be material weaknesses. However, do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated April 14, 2003.

This report is intended for the information and use of management, the Board of Governance, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 14, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

New Choices Community School, Inc.
Montgomery County
20 West First Street
Dayton, Ohio 45402

Compliance

We have audited the compliance of New Choices Community School, Inc, (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 are applicable its major federal program for the year ended June 30, 2002. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. 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 contained in *Government Auditing Standards* issued by the Comptroller General of the United States; 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2002-10357-005.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, Board of Governance, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 14, 2003

**NEW CHOICES COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS
--

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Federal Charter School Start-up: CFDA # 84.282
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING 2002-103357-001

Ohio Administration Code Section 117-6-01 (B) requires each community school to employ the Uniform School Accounting System (USAS). USAS employs a system of dimensions (codes) which serves to identify in detail each financial transaction of the School. The reporting requirements for expenditures are fund (3 digits), function (2 digits), object (1 digit) and, when required by a funding agent, special cost center (4 digits). Minimum requirements for receipts are fund (3 digits), receipt code (2 digits), and, when required by a funding agent, special cost center (4 digits). Although the School converted their transactions to USAS codes after year end, they used a system of accounting that was not in conformity with USAS during the fiscal year, which could result in inappropriate postings of revenue and expenditures, and resulted in additional effort to convert the amounts to the required detail after year-end.

The School should develop and implement the routine use of the Uniform School Accounting System for its daily transactions and record keeping, to reduce the potential for errors and allow for the routine presentation of financial activity under USAS.

FINDING 2002-10357-002

Ohio Rev. Code Section 3314.03(A)(11)(g) requires that the community school governing authority submit an annual report of its activities and progress in meeting the goals and standards of divisions (A)(3) and (4) (academic goals method to determine progress and performance standards to evaluate a school's success) of Ohio Revised Code Section 3314.03 and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight. The School did not submit an annual report of activities.

The School should prepare and file the required Annual Report of Activities in a timely manner.

FINDING 2002-10357-003

The agreed upon Community School Contract between New Choices Community School and Ohio Department of Education, its Sponsor, states in Article III, Part C that:

The Governing Authority agrees to hire classroom teachers who are licensed in accordance with Sections 3319.22 to 3319.31 of the Ohio Revised Code and may employ other persons as are necessary to carry out and fulfill its mission pursuant to Section 3314.01(A)(1) of the Ohio Revised Code. The school may engage non-certified persons to teach up to twelve hours per week pursuant to Section 3319.301 of the Ohio Revised Code. The requirement of certification or licensure may be fulfilled by obtaining either a teaching certificate or temporary or interim teaching certificate as issued by the Ohio Department of Education.

The School was unable to provide proof of license certification and/or permits issued by the Ohio Department of Education for all of its teachers.

The School should adopt and implement policies that teachers employed by the School are certified and/or that non-certificated employees obtain permits issued by the Ohio Department of Education in order to teach. This would require proof of the teaching certification with the Ohio Department of Education at the time of employment. These certifications should be maintained in the employees' personnel files.

FINDING 2002-10357-004

Fixed Assets

New Choices Community School did retain a listing of assets purchased, the location of the assets, and the dollar value of the asset, however, the following weaknesses existed:

- The School did not accurately develop and implement procedures to assist in recording assets as additions when purchased, and deletions when disposed during the year.
- The School had not adopted a formal policy for performing periodic physical inventory of assets.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

The School should develop and implement procedures to be performed throughout the year for the timely maintenance of fixed assets records. These procedures should include; tagging and recording all assets meeting the School's capitalization criteria when purchased; completion of addition and disposal forms as assets are acquired or disposed of; entering of addition/deletion information on a fixed asset accounting system. Additionally, the fixed asset records should include such information as a description of the item, the cost, the acquisition date, location and any other supporting documentation. Finally; an annual physical inventory of fixed assets should be performed and reconciled to the records.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Title of Finding

Finding Number	2002-10357-005
CFDA Title and Number	CFDA #84.282 - Federal Charter School Start-up
Federal Award Number / Year	2002
Federal Agency	U.S. Department of Education
Pass-Through Agency	State of Ohio Department of Education

OMB Circular A-133, Subpart C, § 300, requires local governments receiving federal financial assistance to identify, in their accounting records, all federal funds received and expended and the programs under which they were received. Expenditures made in anticipation of grant revenues not yet received, should be allocated to the corresponding fund. The School did not identify federal expenditures that could be reconciled to the programs under which they were received and disbursed. Although expenditures and revenues were converted, in total, to program specific codes at year end, this should be an ongoing activity throughout the fiscal year.

This could result an understatement of federal revenue and/or questioned program costs or not provide timely information regarding the ongoing status of grant funding.

The School should utilize the Uniform School Accounting System and assign each federal grant a separate fund, and each federal grant project year a separate special cost center, to specifically identify federal receipts and expenditures to provide a means of providing timely information on each grant.



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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
JUNE 3, 2003**