NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the New Choices Community School, Montgomery County (the School), as of and for the year ended June 30, 2007, 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 respective financial position of the School as of June 30, 2007, 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 $619,308, an operating loss of $731,582, and an accumulated deficit of $461,292 that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2009 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor, CPA
Auditor of State

September 2, 2009

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The discussion and analysis New Choices Community School (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- Total net assets of the School decreased $209,734 during fiscal year 2007, resulting in an ending accumulated deficit of $461,292 at June 30, 2007 compared with the $251,558 accumulated deficit reported one year prior.
- Total assets increased by only $263,801 despite the $401,663 increase in the amount reported for capital assets at the end of the year. Cash disbursements exceeding cash receipts during the year reduced the cash balance by $111,494 from the June 30, 2006 cash balance.
- The School's operating loss for fiscal year 2007 was $731,582; virtually the same as the operating loss reported for the prior fiscal year.

Using this Financial Report

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

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2007 compared with fiscal year 2006.

Table 1
Net Assets

	2007	2006
Assets:		
Current and other assets	$ 45,009	$182,871
Capital assets, net	423,599	21,936
Total Assets	468,608	204,807
Liabilities:		
Current liabilities	656,317	456,365
Non-current liabilities	273,583	
Total Liabilities	929,900	456,365
Net Assets:		
Invested in capital assets	60,016	21,936
Unrestricted	(521,308)	(273,494)
Total Net Assets(Deficit)	($461,292)	($251,558)

The total net assets of the School decreased by $209,734 during fiscal year 2007 due to the increase in liabilities exceeding the increase in assets.

As noted in Table 1 above, total liabilities increased by $473,535 from those reported at June 30, 2006. $363,583 of the increase is directly related to the debt obligations the School incurred in December 2006 to finance the purchase of the school building it was previously leasing. The debt obligations include a mortgage note payable to a financial institution as well as a second mortgage note to the previous owner of the building. The total of these obligations which are deemed current obligations, those that are due within one year, of the School is $90,000 and the remaining $273,583 will mature over the next seven fiscal years. Additional increases in liabilities include nearly $48,000 in accounts payable related to the education services for pupils with special needs and nearly $68,500 in additional amounts owed to the Internal Revenue Services and other political agencies for payroll taxes withheld from employee's payroll checks over the past several years but not remitted to the appropriate agency.

Total assets increased by $263,801 over those reported for fiscal year 2006 with capital assets increasing by $401,663 and the remaining asset classifications decreasing by $137,862. Capital assets increased due to the $425,000 purchase of the school building during fiscal year 2007 which was somewhat offset by current year depreciation expense. The decrease in other assets was most significant for cash and cash equivalents which decreased by $111,494 from the amount reported at the end of the previous year. The decrease in cash was due exclusively to cash disbursements exceeding cash receipts during the fiscal year.

Overall, the School reported an ending accumulated deficit of $461,292 at June 30, 2007; however, $60,016 is reported as net assets invested in capital assets which increases the unrestricted deficit to $521,308. Management intends to closely monitor expenses in subsequent fiscal years to address the negative unrestricted net asset situation.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, as well as revenue and expense comparisons to fiscal year 2006.

Table 2
Change in Net Assets

	2007	2006
Operating Revenues:		
Foundation payments	$1,562,861	$1,323,222
Non Operating Revenues:		
Federal Grants	294,764	239,584
State Grants	8,383	20,162
Sinclair revenue	205,313	249,947
Other revenue	61,500	41,502
Total Revenues	2,132,821	1,874,417
Operating Expenses:		
Salaries	999,784	986,908
Fringe Benefits	345,533	247,974
Purchased services	744,505	773,604
Materials and supplies	126,661	23,092
Depreciation	27,837	22,276
Other expenses	50,123	
Non Operating Expenses:		
Interest and fiscal charges	48,112	64,751
Total Expenses	2,342,555	2,118,605
Change in Net Assets	(209,734)	(244,188)
Net Assets (Deficit), beginning of year	(251,558)	(7,370)
Net Assets(Deficit), end of year	($ 461,292)	($ 251,558)

As shown in Table 2 above, total revenue received by the School for fiscal year 2006 was $258,404 more than the revenue received in the prior year, an increase of 13.8 percent. The increase in funding received through the State Foundation funding program increased $239,639 from the levels received in fiscal year 2006 due to the increase in the number of students attending the School as well as an increase in the per pupil funding amount used in the funding calculation. Federal grants awarded through the Ohio Department of Education (ODE) increased $55,180 for fiscal year 2007 from the amounts recognized in the prior year due to the increase in the number of students and the allocation process used by ODE.

Total expenses of the School reported for the fiscal year were $223,950 higher than those reported for the fiscal year 2006, a 10.6 percent increase. Of this amount, $103,569 was related to materials and supplies used in the operation and maintenance of the building which was owned by the School for the last half of the fiscal year. The School rented the building from another organization prior to December 2006. Additional costs were also noted in the employee fringe benefit category due to the increasing cost of providing health care coverage as well as the additional amounts the School recognized as due to other governmental agencies for unpaid payroll withholdings. The School has made significant progress by the end of fiscal year 2008 in reducing the outstanding liability owed for payroll tax withholdings, however, at June 30, 2007 the total amount due to all agencies was $234,053, including interest and penalties.

Capital Assets

At June 30, 2007, the capital assets of the School consisted of $541,169 of land, buildings and improvement, and furniture and equipment which was offset by $117,570 in accumulated depreciation resulting in net capital assets of $423,599. The purchase of the school building and land during the year represented $425,000 of the $429,500 worth of capital asset additions acquired during fiscal year 2007. Depreciation expense for the year was $27,837.

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

Debt

No payments were made during fiscal year 2007 on the remaining loan amount of $89,314 that was owed to Eastway Corporation for services provided in prior years. The loan was to be repaid by June 30, 2006.

As previously mentioned, the School issued two notes payable during the fiscal year in conjunction with the acquisition of the school building; a $343,000 mortgage note to a local bank and a $82,000 second mortgage note to Boys and Girls Club of Dayton. During the year, the School made total principal payments of $61,417 on outstanding notes payable resulting in $363,583 of total debt obligations at June 30, 2007, $90,000 of which are due within the next year.

In addition, the School borrowed another $3,981 from its line-of-credit during the year. The total amount outstanding at June 30, 2007 related to the line-of-credit was $23,981.

See Notes 8 and 9 of the notes to the basic financial statements for additional information related to the debt obligations of the School.

Contacting the School

This financial report is designed to provide a general overview of the finances of the New Choices Community School, Inc., 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:

New Choices Community School, Inc.
Attn: Treasurer
601 South Keowee Street
Dayton, Ohio 45401
(937) 224-8201

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

Assets:	
Current Assets:	
Cash and Cash Equivalents	$0
Receivables:	
Intergovernmental	19,009
Prepaid Items	18,000
Total Current Assets	37,009
Non-current Assets:	
Security Deposit	8,000
Capital Assets:	
Non-depreciable	35,215
Capital Assets, net of accumulated depreciation	388,384
Total Non-current assets	431,599
Total Assets	468,608
Liabilities:	
Current Liabilities:	
Accounts Payable	110,628
Accrued Wages Payable	80,939
Intergovernmental Payable	247,190
Compensated Absences Payable	14,265
Line of Credit Payable	23,981
Notes payable	179,314
Total Current Liabilities	656,317
Non-current Liabilities:	
Notes payable	273,583
Total Liabilities	929,900
Net Assets:	
Invested in Capital Assets, Net of Related Debt	60,016
Accumulated Deficit	(521,308)
Total Accumulated Deficit	($461,292)

See accompanying notes to the financial statements.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN ACCUMULATED DEFICIT FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:	
Foundation Revenue	$1,562,861
Total Operating Revenues	1,562,861
Operating Expenses:	
Salaries	999,784
Fringe Benefits	345,533
Purchased Services	744,505
Materials and Supplies	126,661
Depreciation	27,837
Other	50,123
Total Operating Expenses	2,294,443
Operating Loss	(731,582)
Non-Operating Revenues and (Expenses):	
Federal Grants	294,764
State Grants	8,383
Sinclair Revenue	205,313
Rental income	25,071
Other Revenue	36,429
Interest and Fiscal Charges	(48,112)
Total Non-Operating Revenues and (Expenses)	521,848
Change in Net Assets	(209,734)
Accumulated Deficit Beginning of Year	(251,558)
Accumulated Deficit End of Year	($461,292)

See accompanying notes to the financial statements.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities	
Cash from State of Ohio	$1,595,374
Cash Payments to Suppliers for Goods and Services	(897,591)
Cash Payments to Employees for Services and Benefits	(1,323,949)
Net Cash Used for Operating Activities	(626,166)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants	323,002
Local Grants	205,313
Other Non-operating Revenues	61,500
Net Cash Provided by Noncapital Financing Activities	589,815
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Line of Credit	3,981
Proceeds from Notes Payable	425,000
Capital Acquisitions	(429,500)
Payment on Notes Payable	(61,417)
Interest and Fiscal Charges	(13,207)
Net Cash Used for Capital and Related Financing Activities	(75,143)
Net Decrease in Cash and Cash Equivalents	(111,494)
Cash and Cash Equivalents, Beginning of Year	111,494
Cash and Cash Equivalents, End of Year	0
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($731,582)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	27,837
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable Related to State Foundation Program	32,513
Increase in Prepaid Expenses	(18,000)
Increase in Security Deposit	(8,000)
Increase in Accounts Payable	32,798
Decrease in Accrued Wages Payable	(5,473)
Increase in Intergovernmental Payable	35,393
Increase in Compensated Absences Payable	8,348
Total Adjustments	105,416
Net Cash Used for Operating Activities	($626,166)

See accompanying notes to the financial statements.

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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, 2006. 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 no wish to renew the contract. Neither party has cancelled the contract, therefore the Sponsor contract with SAO was extended to cover fiscal year 2007.

The School operates under the direction of a seven-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 30 staff members who provide services to 214 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 accumulated deficit 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 received by the School are maintained in demand deposit accounts.

E. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time the expenditure is made and an expense in the year in which the services are consumed.

F. 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.

G. Capital Assets and Depreciation

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

Depreciation 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

I. 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 non-operating revenues and expenses of the School.

J. Accrued Liabilities Payable

Accounts Payable - payments due to various vendors for goods received or services provided during fiscal year 2007 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 fiscal year 2007. Teaching personnel are paid in 26 equal installments, ending with the last pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2007 for all salary payments made to teaching personnel during the months of July and August 2007.

Intergovernmental Payable – payment for the employer's share of the retirement contribution ($11,331), workers' compensation ($632) and Medicare ($1,174) associated with services rendered during fiscal year 2007.

In addition, subsequent to year end it was determined by the School that federal, state and local payroll taxes withheld from employee's wages were not remitted to the appropriate agency as required. The total amount owed by the School for these unpaid payroll withholding taxes at June 30, 2007 was $234,053 including $99,656 in penalties and interest. The School has worked with the various agencies at eliminating this liability and as of December 31, 2008, the School had satisfied, in full, the amounts owed.

K. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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, 2007, the carrying amount of the School's deposits was $0. At June 30, 2007 the School's bank balance was $203,381, $58,021 of which was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

4. CAPITAL ASSETS

A summary of the School's capital assets for the year ended June 30, 2007, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land		$ 35,215		$ 35,215
Buildings and improvements		393,285		393,285
Furniture and equipment	$111,669	1,000		112,669
	111,669	429,500		541,169
Less: accumulated depreciation on:				
Buildings and improvements		(9,978)		(9,978)
Furniture and equipment	(89,733)	(17,859)		(107,592)
	(89,733)	(27,837)		(117,570)
Total net capital assets	$21,936	$401,663	$0	$423,599

5. RISK MANAGEMENT

A. 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: Property and professional liability has a $1 million single occurrence limit and $3 million aggregate limit. Automobile liability has a $1 million combined single limit of liability and no deductible.

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.

B. Workers' Compensation

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

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were $26,981, $29,885, and $11,243, respectively. 100% has been contributed for each fiscal year.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2007, 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 2006, 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, 2007, 2006, and 2005, were $95,611, $83,850, and $46,997, respectively; 88.2 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B 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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $7,355 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $12,035.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for June 30, 2006 (the latest information available) were $158,751,207 and the net assets available for payment of health care benefits of $295.6 million. The number of participants eligible to receive benefits was 59,492.

7. 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. Such disallowed claims would have a material adverse effect on the overall financial position of the School at June 30, 2007.

7. CONTINGENCIES (Continued)

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 conclusion of this review has resulted in an increase of state funding by $2,337 for fiscal year 2007 which is included in the financial statements as an intergovernmental receivable.

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.

8. SHORT-TERM OBLIGATIONS

A summary of the School's short-term obligations activity for the year follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Loan Payable (Eastway Corporation)	$ 89,314			$ 89,314
Line of credit - Fifth Third Bank	20,000	$3,981		23,981
Total	$109,314	$3,981	$0	$113,295

A. Loan Payable

The School entered into a contract on July 1, 2002 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 evaluation, information systems management, clinical information system management, 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.

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

During fiscal year 2007, no payments were made to Eastway Corporation on the loan. The remaining loan amount of $89,314 is now past due as the entire loan amount was to be repaid by June 30, 2006.

8. SHORT-TERM OBLIGATIONS (Continued)

B. Line of Credit

During fiscal year 2007, the School borrowed an additional $3,981 against a $35,000 line of credit it established in February 2006 with Fifth Third Bank. The amount, along with the $20,000 drawn in the previous fiscal year, was used to provide financing for operating activities. The interest rate provision of the line of credit is a floating rate per annum equal to two percent in excess of the rate of interest established from time to time by Fifth Third Bank at its principal office as its "Prime Rate", whether or not Fifth Third Bank shall at times lend to borrowers at lower rates of interest or, if there is no such prime rate, then such other rate may be substituted by Fifth Third Bank for the prime rate. In the event of a change in said prime rate, the interest rate on the line of credit shall be changed immediately to the new prime rate plus two percent. There were no principal payments made by the School during fiscal year 2007 on the line of credit.

9. LONG-TERM DEBT OBLIGATIONS

During fiscal year 2007, the School entered into two notes payable agreements to provide financing for the acquisition of capital assets.

On December 22, 2006 the School signed a mortgage term note to Fifth Third Bank for $343,000 payable in 84 equal monthly installments commencing 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 property at 601 South Keowee Street, Dayton, Ohio 45410.

On December 22, 2006 the School signed a promissory note to the Dayton Boys Club for $82,000 payable in twelve equal monthly installments commencing on February 1, 2007. No interest will accrue on this Note; except that if any monthly payment is not paid in full within 30 days after its due date, the lender has the option to declare this Note an interest bearing note, with interest to accrue at the rate of 10 percent per annum on any unpaid balance. This note is secured with a second mortgage lien against the property listed above.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	$ 90,000	$23,037	$113,037
2009	49,000	19,225	68,225
2010	49,000	15,474	64,474
2011	49,000	11,724	60,724
2012	49,000	7,993	56,993
2013 - 2014	77,583	4,954	82,537
Total	$363,583	$82,407	$445,990

The long-term obligation activity of the School for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Amount due within 1 year
Notes Payable:					
Fifth Third Bank		$343,000	($20,417)	$322,583	$49,000
Boys and Girls Club		82,000	(41,000)	41,000	41,000
Total	$0	$425,000	($61,417)	$363,583	$90,000

10. OPERATING LEASES

The School leases its facilities from the Dayton Boys and Girls Club under an initial lease agreement beginning September 23, 2002 and ending June 30, 2005. This agreement was extended on a year to year basis effective July 1, 2005. The monthly lease payments during fiscal year 2007 were $5,000. Total rental payments for fiscal year 2007 were $25,000. The lease was terminated on December 22, 2006 when the School purchased the facilities from the Dayton Boys and Girls Club. The total purchase price of the facility was $425,000.

The School leases additional space for educational services from Real Estate Investors Place, LLC. The lease agreement was entered into on November 1, 2006 for a one year period ending October 31, 2007. The monthly lease payments during the lease period were $1,000. Total rental payments during fiscal year 2007 were $10,000 of which $2,000 was prepaid rent for July and August of fiscal year 2008.

11. RELATED PARTY

Mr. John Cloud, a School Board member, is also a partner with the School's attorney, Rogers & Greenberg L.L.P. There were no payments made to Mr. Cloud or his practice during the audit period.

12. NONCOMPLIANCE

The School did not comply with requirements regarding the implementations of internal controls, remitting employee federal, state, local and pension withholdings, maintaining capital asset records, spending public money for proper public purpose, and bonding of the fiscal officer.

13. OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

Professional & technical services	$332,663
Property services	246,785
Travel and meeting expense	6,696
Communications	9,886
Utilities	97,570
Contract craft or labor	40,348
Pupil transportation services	1,908
Other	8,649
	$744,505

14. MANAGEMENT'S PLAN FOR CONTINUED EXISTENCE

As shown in the accompanying financial statements, the New Choices Community School had a total accumulated deficit of $461,292 as of June 30, 2007 which is primarily due to payables including intergovernmental payables. The School's long range plans are to decrease expenditures. This will be accomplished by eliminating the junior high, discontinuing the lease for the high school building, and controlling staffing levels as appropriate.

15. SUBSEQUENT EVENTS

On July 1, 2007 the School entered into a sublease agreement with the East End Community School to provide additional space for educational services. The agreement was for a one-year period effective July 1, 2007 and called for monthly rental payments of $8,000 with an additional $8,000 required as a security deposit. After the termination of the sublease agreement, the School entered into a rental agreement with the Holy Family Roman Catholic Church for the lease of the same property. The terms and amounts of the lease agreement are the same as those in the sublease agreement.

On September 12, 2007, the Ohio Attorney General filed a complaint in Montgomery County Ohio Court of Common Pleas against New Choices Community School, its sponsor St. Aloysius Orphanage, and individual members of the School's governing authority. The Attorney General claimed that Ohio's community schools are charitable/public trusts over which he has regulatory power. The claim contends the School's academic and financial records establish that it is a failing charitable/public trust. Originally the complaint sought to close the School and distribute its assets. Subsequently, the complaint was amended to seek the removal of the School's governing authority as alternative relief. On September 25, 2008 the trial court granted the defendants' motion for judgment on the pleadings, dismissing all claims against the School, concluding that community schools are not charitable/public trusts over which the Attorney General has regulatory power. On October 24, 2008, the Attorney General appealed the trial court's decision to the Ohio Second Court of Appeals, filing a brief of appellant on March 3, 2009. Briefing in the appeal finished in May 2009. Oral arguments was held on July 28, 2009. A decision is expected by the end of 2009.

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Mary Taylor, CPA
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 Governing Board:

We have audited the financial statements the business-type activities of the New Choices Community School, Montgomery County (the School) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 2, 2009, wherein we noted that the School has incurred a working capital deficiency of $619,308, an operating loss of $731,582, and an accumulated deficit of $461,292 for the year ended June 30, 2007 that raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2007-001 through 2007-008 and 2007-010 through 2007-012 described in the accompanying schedule of to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe finding numbers 2007-001 through 2007-008 and 2007-010 through 2007-012, described above, to also be material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated September 2, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of as items 2007-001 through 2007-009 and 2007-013 through 2007-017.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated September 2, 2009.

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

We intend this report solely for the information and use of management, the Governing Board, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 2, 2009

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

Ohio Rev. Code Section 3314.03 (B)(5) and AOS Bulletin 2000-005 provide that the management of each community school be responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of assets, the efficiency and effectiveness of its operations, and its compliance with applicable laws, regulations and contracts. In designing its internal control process, management should consider policies and procedures that provide the following;

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

The School had weak controls over cash reconciliation, maintenance of records, posting to ledgers and support for cash revenues and disbursements. The School's Financial Report for 2007 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end of the period as follows:

Statement of Net Assets/Accumulated Deficit:
- Cash and Cash Equivalents were understated $78,676;
- Intergovernmental Payables was understated $64,461;
- Capital Assets, Net of Accumulated Depreciation was overstated $3,105;
- Line of Credit payable was overstated $20,000;
- Accounts Payable was understated $48,955
- Invested in Capital Assets, Net of Related Debt was understated $38,080
- Accumulated Deficit was overstated $55,925

Statement of Revenues, Expenses and Changes in Accumulated Deficit:
- Sinclair Revenues were overstated $35,000;
- Rental Income was understated $7,650;
- Interest and Fiscal Charges was understated $35,377;
- Other Revenue was overstated $11,014;
- Salaries were overstated $23,752;
- Fringe Benefits were overstated $46,968;
- Purchased Services were understated $17,092;
- Materials and Supplies were overstated $233;
- Depreciation was understated $3,105;
- Other expenses were overstated by $5,140

Statement of Cash Flows
- Cash Payments for Goods and Services were overstated $36,271;
- Cash Payments to Employees for Services and Benefits was overstated $101,241;
- Local Grants revenue was overstated by $35,000;
- Other Non-operating Revenues was overstated by $3,364;
- Proceeds from Line of Credit was overstated $20,000;
- Interest and Fiscal Charges expenses were understated $472

FINDING NUMBER 2007-001
(Continued)

The School should design and implement the required control procedures including detailed timely reviews of these cycles. These reviews should be documented and reported to the Board as part of its regular meetings. This will allow management to provide accurate and timely financial information to the Board for decision making purposes. Procedures should be developed and implemented to provide for the integrity of the financial records. Additionally, the amounts in the financial statements, notes to the financial statements, and MD&A should be supported by the appropriate documentation.

Officials' Response:

All the transactions are recorded on the state software and a review of these are done monthly with the board utilizing the above reports.

All notes to the financial statements and MD&A are supported by documentation.

FINDING NUMBER 2007-002

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

26 USC 3402(a)(1) states, in part that, in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary of Treasury.

The School withheld from employees, but did not remit to the United States Treasury, $54,648 of federal income taxes. An adjustment was made to report this amount as an intergovernmental payable since it was not recorded by the School on the financial statements.

The School should book all unpaid Federal tax remittances as intergovernmental payables, and additionally remit all federal income taxes withheld in a timely manner to the Internal Revenue Service. This would help reduce the possibility of a misstatement and additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the Internal Revenue Service for further investigation.

Officials' Response:

The School has remitted all unpaid 2007 federal payroll taxes to the IRS. The School has implemented a procedure for timely payments of all federal taxes.

FINDING NUMBER 2007-003

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

26 USC 3102 (a) states, in part, that the tax imposed by section 3101 shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid. **26 USC 3111 (a)** states that in addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the percentages of the wages (as defined in section 3121[a]) paid by him with respect to employment.

The School failed to remit the employee and employer portions of Medicare taxes to the United States Treasury totaling $34,782. An adjustment was made to report this amount as an intergovernmental payable since it was not recorded by the School on the financial statements.

FINDING NUMBER 2007-003
(Continued)

The School should book all unpaid Medicare remittances as intergovernmental payables, and additionally remit all Medicare taxes withheld in a timely manner to the Internal Revenue Service. This would help reduce the possibility of a misstatement and additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the Internal Revenue Service for further investigation.

Officials' Response:

The School has remitted all unpaid 2007 Medicare taxes to the IRS. The School has implemented a procedure for timely payments of all Medicare taxes.

FINDING NUMBER 2007-004

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

Ohio Rev. Code Section 5747.06(A) states, in part, that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer, shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in his adjusted gross income during the calendar year. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

The School withheld Ohio Income Tax from employees but did not remit it to the Ohio Department of Taxation in the amount of $29,050. An adjustment was made to report this amount as an intergovernmental payable since it was not recorded by the School on the financial statements.

The School should report all unpaid Ohio Department of Taxation remittances as intergovernmental payables, and additionally remit all state income taxes withheld in a timely manner to the Ohio Department of Taxation. This would help reduce the possibility of a misstatement and additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the Ohio Department of Taxation for further investigation.

Officials' Response:

The School has remitted all unpaid 2007 state income taxes to the Ohio Department of Taxation. The School has implemented a procedure for timely payments of all state income taxes.

FINDING NUMBER 2007-005

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

Section 36.105(A) of the City of Dayton Income Tax Ordinance No. 30519-06 states that each employer within, or doing business within, the city who employs one or more persons shall deduct city income tax from qualifying wages paid to a taxpayer for work done or services performed or rendered in the city by the taxpayer… The employer shall deduct city income tax at the time such qualifying wages are paid, allocated, apportioned or set aside, and the employer shall deduct city income tax on such qualifying wages at the rate provided in Section 36.103. Except as provided in Section 36.105(D), on or before the fifteenth (15th) day of the month following such withholding, the employer shall make a return and pay to the Tax Administrator the amount of city income taxes so deducted from such qualifying wages.

FINDING NUMBER 2007-005
(Continued)

The School withheld city income taxes from employees but did not remit it to the City of Dayton in the amount of $5,811. An adjustment was made to report this amount as an intergovernmental payable since it was not recorded by the School on the financial statements.

The School should report all unpaid City of Dayton income tax remittances as intergovernmental payables, and additionally remit all local income taxes withheld in a timely manner to the City of Dayton. This would help reduce the possibility of a misstatement and additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the City of Dayton for further investigation.

Officials' Response:

The School has remitted all unpaid 2007 City of Dayton to the City of Dayton Department of Taxation. The School has implemented a procedure for timely payments of all City of Dayton income taxes.

FINDING NUMBER 2007-006

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

Ohio Rev. Code Section 3307.26 states, in part, that each teacher shall contribute ten percent of the teacher's earned compensation, except that the state teachers retirement board may raise the contribution rate to a rate not greater than ten percent of the teacher's earned compensation. The contribution for all teachers shall be deducted by the employer on each payroll in an amount equal to the applicable percent of the teachers' paid compensation for such payroll period or other period as the Governing Authority may approve.

The School withheld State Teachers Retirement System (STRS) pension withholdings from employees but did not remit them to STRS. As of June 30, 2007, the School owed STRS employee withholdings in the amount of $5,492. An adjustment was made to report this amount as an intergovernmental payable since it was not recorded by the School on the financial statements.

The School should record all unpaid STRS remittances as intergovernmental payables, and additionally remit all STRS pension amounts withheld in a timely manner to the STRS. This would help reduce the possibility of a misstatement and additional expenditures to the School for fines imposed for late pension filings. This matter has been referred to STRS for further investigation.

Officials' Response:

The School has remitted all unpaid 2007 STRS pension amounts to STRS. The School has implemented a procedure for timely payments of all STRS pension amounts.

FINDING NUMBER 2007-007

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

Ohio Rev. Code Section 3309.47 states, in part, that each school employees' retirement contributor shall contribute ten percent of the contributor's compensation to the employees' savings fund, except that eight school employees retirement board may raise the contribution rate to a rate not greater than ten percent of compensation. The contributions by the director of the school employees' retirement board shall be deducted by the employer from the compensation of each contributor on each payroll of such contributor for each payroll period and shall be an amount equal to the required percent of such contributor's compensation.

Ohio Rev. Code Section 3309.49 states, in part, that each employer shall pay to the School Employees' Retirement System (SERS) an amount certified by the secretary that shall be a certain percent of the earnable compensation of all employees, and shall be known as the "employer contribution."

FINDING NUMBER 2007-007
(Continued)

The School withheld SERS pension withholdings from employees but did not remit them to SERS. As of June 30, 2007, the School owed SERS employee withholdings in the amount of $5,305. An adjustment was made to report this amount as an intergovernmental payable since it was not recorded by the School on the financial statements.

The School should record all unpaid SERS remittances as intergovernmental payables, and additionally remit all SERS pension amounts withheld in a timely manner to SERS. This would help reduce the possibility of a misstatement and additional expenditures to the School for fines imposed for late pension filings. This matter has been referred to SERS for further investigation.

Officials' Response:

The School has remitted all unpaid 2007 SERS pension amounts to SERS. The School has implemented a procedure for timely payments of all SERS pension amounts.

FINDING NUMBER 2007-008

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

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

- Capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

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

Additionally, for the assets purchased in 2007, which included a kitchen stove, signs for the school building, and the school building located at 601 South Keowee St., the School calculated current depreciation from the time the asset was placed into service, but the capital asset procedures in use by the School state that when determining depreciation, one year of depreciation is taken no matter when the asset was acquired resulting in a difference of $5,074.

FINDING NUMBER 2007-008
(Continued)

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

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

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

Officials' Response:

The School has adopted a capital asset accounting system which will accurately represent all capital assets owned by the School. The system will be capable of maintaining a complete asset inventory indicating asset tag number; location; date acquired, cost, manufacturer, model and serial number, and useful life.

The Board has developed and implemented appropriate capital asset policies and procedures to be performed throughout the year for the timely maintenance of capital asset records.

FINDING NUMBER 2007-009

NONCOMPLIANCE FINDING

Ohio Attorney General Opinion 82-006, address the expenditure of funds for proper public purposes. This opinion, citing Ohio Supreme Court case State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to what may be construed as a public purpose. First, the expenditure is required for the general good of all inhabitants. As stated in McClure, "generally, a public purpose has for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of all the inhabitants…." Id. At 324. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

Penalties and late fees do not further a public purpose and related expenditures are not considered as proper public purpose.

- The School paid $752 in late fees for not paying 19 invoices in a timely manner.
- The School paid $66 in overdraft fees to Fifth Third Bank.
- The School owed $96,184 in penalties and late fees to the IRS as of June 30, 2007 for not reporting quarterly payroll amounts in a timely manner and not remitting all employee federal tax and Medicare withholdings.
- The School owed $3,742 in penalties and late fees to the City of Dayton as of June 30, 2007 for not reporting monthly payroll amounts in a timely manner and not remitting all employee city tax withholdings.

FINDING NUMBER 2007-009
(Continued)

Policies should be developed and procedures implemented to verify the School's compliance with various reporting requirements and steps should be implemented to verify that all payments are made on time. This will reduce the penalties, fines and fees assessed against the School.

Officials' Response:

Policies and procedures have been implemented to verify the School's compliance with various reporting requirements and steps have been implemented to verify that all payments are made on time.

FINDING NUMBER 2007-010

MATERIAL WEAKNESS

School Accounting Records

The School utilized manual spreadsheets to record accounting transactions. The following errors were noted during testing of receipts and disbursements:

a. Posting Financial Activity

Revenues
Cash revenues were miss-posted in the following line items:

- Sinclair Revenue was overstated $35,000 due to posting a bank transfer as a receipt;
- Rental Income was understated $7,650 due to not posting rental receipts;
- Other Revenue was overstated $11,014 due to duplicate postings, not posting bank credits and miss-posting prior period voided expenses that were reissued;
- Loan Proceeds were understated by $3,981 due to not posting any proceeds during the fiscal year.

Expenditures
Cash expenditures were miss-posted in the following line items:

- Salaries were overstated by $60,034 due to not recording all payroll expenses, posting withholdings that were never paid, and not recording all voided transactions;
- Fringe benefits were overstated by $46,968 due to not recording transactions, not recording reissued voided checks, double posting employee health insurance payments, and posting payments that never occurred;
- Purchased services were overstated $30,898 due to not recording transactions, not recording reissued voided checks, and posting payments that never occurred;
- Materials and supplies was overstated $233 for payments that never occurred;
- Other expenses were understated by $3,981 due to not recording transactions;
- Interest and fiscal charges were understated by $472 due to not recording bank charges at the correct amounts.
- Adjustments were made to correct these variances.

b. Posting Errors

The School inaccurately posted 41 payroll check numbers to the accounting system. The check numbers in the system did not agree to the check number pre-printed on the check. For example, pre-printed check #5895 was issued and was recorded in the accounting system as check #6058.

c. Sequential Transaction Numbers

Inspection of the School's check register noted that checks were not issued sequentially. For example, check number 7518 was issued on 6/30/07 and check 7540 was issued on 4/30/07.

FINDING NUMBER 2007-010
(Continued)

d. Variance Between Invoice Amounts and Payments

The School did not pay the amount reflected on the supporting invoice(s) 31 times during the fiscal year. 24 of these instances resulted in overpayments of $1,650 (the School was credited the amount on future payments) and seven of these instances resulted in underpayments of $480. There was no indication of why the different amount was paid.

Inaccurate / untimely posting of financial activity and failure to use corresponding and sequential check numbers, could result in errors and omissions not being detected in a timely manner and cause difficulties when completing monthly cash reconciliations. Detailed supporting records should be required by the School for all payments to document who was benefited, what was purchased and determine if the expense was for a proper public purchase.

To improve internal controls over the accounting process, the School should develop procedures (including oversight) to verify that all financial activity is paid and posted in an accurate and timely manner and that all checks, electronic transactions, and memo expenditures are printed on the correct paper check or posted with the correct number.

Officials' Response:

All posting of financial activity is monitored monthly with meetings that include the accounts payable person, the Treasurer and the CEO. All receipt postings are verified with the OAKS system payment detail. Payments of invoices are made as timely as cash will allow. Payroll processing is verified by the CEO and the Treasurer.

FINDING NUMBER 2007-011

MATERIAL WEAKNESS

Management Risk Assessment Process

Management should establish a risk assessment process to identify internal and external events and circumstances that may occur and adversely affect an entity's ability to record, process, summarize and report financial data consistent with management's financial statement assertions. Risk assessment differs from monitoring controls. Monitoring controls primarily address the continued effective operation of application controls. Risk assessment includes:

- Identifying unusual events or transactions, or changes in laws or accounting principles or other financial reporting requirements.
- Analyzing how these events or transactions affect financial reporting
- If the event or transaction will be recurring, determining modifications to the accounting systems or control activities to help assure properly including and reporting these matters in the financial statements.

The School did not maintain accurate financial records or prepare accurate monthly reconciliations during the audit period. The School originally failed to prepare year-end financial statements for fiscal year 2007. The School did not have a risk assessment process working effectively that could have identified the problems in processing and reporting financial information.

The School should establish an effective risk assessment process that is capable of identifying events or transactions that might adversely affect the School's ability to record, process, summarize and report financial data consistent with the management's financial statement assertions. Failure to do so could result in problems associated with management's financial statement assertions going unnoticed.

FINDING NUMBER 2007-011
(Continued)

Officials' Response:

All cash reconciliation's are done by the accounts payable person and reviewed by the Treasurer and CEO. The management reports are part of the monthly board reports and reviewed by the Treasurer.

FINDING NUMBER 2007-012

MATERIAL WEAKNESS

Understatement of Eastway Corporation Loan Payable

The Board entered into a debt agreement on January 12, 2005, for $434,365 with the Eastway Corporation (Eastway), the School's former management company, for the liquidation of amounts still payable to Eastway as of June 30, 2004. The Board approved a resolution on February 2, 2006, retroactive to the original debt agreement date to amend the amount to $345,051; however, this amendment was not approved by Eastway. An adjustment was made to the financial statements to reflect the correct balance of the loan payable.

The School should implement procedures so that the Eastway Corporation Loan Payable is properly recorded and reflected on the financial statements. Additionally, the School should remit the remaining amount of the loan.

Officials' Response:

No response was received for this finding.

FINDING NUMBER 2007-013

NONCOMPLIANCE FINDING

Ohio Rev. Code Section 3314.011 states, in part, that every community school established under this chapter shall have a designated fiscal officer. The auditor of state may require by rule (see OAC 117-6-07 below) that the fiscal officer of any community school, before entering upon duties as the fiscal officer of the School, execute a bond in an amount and with surety to be approved by the governing authority of the School, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the School, and a copy thereof, certified by the governing authority, shall be filed with the county auditor.

Additionally, **Ohio Admin. Code Section 117-6-07 (B)** requires a community school fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. The governing authority prescribes the bond amount and surety by resolution.

The School did not execute a bond for the Treasurer. Additionally, the bond amount was not approved by the Board. This could result in the School assuming unnecessary liability. The School should implement procedures to verify that the appointed fiscal officer is bonded, and the amount of the bond is adequate for the cash flows of the School. The policy should also include an annual renewal of the executed bond.

Officials' Response:

The bond for the Treasurer is executed and put in place by Charter School Specialists for the Treasurer that has served the School since September, 2007.

FINDING NUMBER 2007-014

NONCOMPLIANCE FINDING

Ohio Rev. Code Section 117.38 requires that each public office file a financial report with the Auditor of State for each fiscal year. The Auditor of State may prescribe forms for such reports and if such form is not prescribed the public office shall submit its report in the form utilized by the public office. The GAAP report shall be certified by the proper officer or board and filed with the Auditor of State within 150 days of the close of the fiscal year. At the time the report is filed with the Auditor of State, the chief fiscal officer shall publish notice in a newspaper of general circulation in the subdivision that the annual financial report has been completed and is available for public inspection at the office of the chief financial officer. **Auditor of State Bulletin 2000-005** states all community schools are required to prepare an annual financial report in accordance with generally accepted accounting principles (GAAP). The annual financial report is required to be filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year.

The School did not receive an extension to the November 30, 2007 deadline. The annual financial report was filed February 19, 2009, more than 14 months past the deadline. Also, the School did not publish a local notice indicating that the report was available for inspection once it was completed.

The School should implement procedures to verify that the annual financial report is prepared and filed by the required deadline and that a notice is published as required. This will allow the School to provide timely information to interested parties.

Officials' Response:

No response was received for this finding

FINDING NUMBER 2007-015

FINDINGS FOR RECOVERY - PAYROLL OVERPAYMENT

Tim Martin's employment contract as a teacher stated that he was to be paid an annual salary of $32,640 to be paid in 26 equal installments for the 2006/2007 school year and was to be paid a basketball stipend of $2,000 to be paid in 2 installments of $1,000; however, records document that Tim Martin was paid $34,953.11 resulting in an overpayment in the total amount of $313.11.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Tim Martin in the amount of $313.11 in favor of the New Choices Community School.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp, 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code 9.39: State ex. rel. Vill. of Linndale v. Masten, 18 OhioSt. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. No. 80-074.

Accordingly, a Finding for Recovery for public monies illegally expended is hereby issued against the estate of former treasurer Donald Paolo, jointly and severally, in the amount of $313.11. The estate of Donald Paolo shall be liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Tim Martin.

Officials' Response:

No response was received for this finding.

FINDING NUMBER 2007-016

FINDING FOR RECOVERY

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code.

Ohio Rev. Code Section 149.43(B)(1) states, in part, that upon request and subject to division (B)(8) of this section, all public records responsive to the request shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours.

Ohio Rev. Code Section 149.431(A) states that any governmental entity or agency and any nonprofit corporation or association, except a corporation organized pursuant to Chapter 1719. of the Revised Code prior to January 1, 1980 or organized pursuant to Chapter 3941 of the Revised Code, that enters into a contract or other agreement with the federal government, a unit of state government, or a political subdivision or taxing unit of this state for the provision of services shall keep accurate and complete financial records of any moneys expended in relation to the performance of the services pursuant to such contract or agreement according to generally accepted accounting principles. Such contract or agreement and such financial records shall be deemed to be public records as defined in division (A)(1) of section 149.43 of the Revised Code and are subject to the requirements of division (B) of that section.

Further, **Ohio Rev. Code Section 149.351 (A)** states, in pertinent part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

Non-payroll expenditure testing resulted in numerous unexplained expenditures with lack of proper supporting documentation. As a result, our office could not determine if these expenditures were for a proper public purpose.

Auditor of State Bulletin 2003-005 states that government entities may not make expenditures of public monies unless they are for a valid public purpose. The Bulletin addresses the requirements necessary to ensure that an entity's expenditure of public funds is for a proper public purpose.

Ohio Attorney General Opinion 82-006 addressed the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case *State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951),* states that expenditures made by a governmental unit should serve a public purpose.

The School's failure to require and maintain adequate support for expenditures could result in a loss of accountability over the School's finances, make it difficult to identify errors which could go undetected and possibly result in expenditures that are not for a proper public purpose.

The following list includes various expenditures the School made without proper supporting documentation.

Payments to Donald Paolo:

Date	Check Number	Vendor	Amount on Check Not Supported	Reason for Finding
4/30/07	7588	Donald Paolo	$2,500	These are duplicate payments for treasurer services performed in June 2007. Originally paid on check #7476
4/30/07	7517	Donald Paolo	$2,500	
		Total	$5,000	

**FINDING NUMBER 2007-016
(Continued)**

In accordance with the foregoing facts and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against the Estate of Donald Paolo in the amount of $5,000 in favor of the New Choices Community School.

Payments to Gary Hardman:

Date	Check Number	Vendor	Amount on Check Not Supported	Reason for Finding
7/20/2006	6867	Gary Hardman	$223.74	Lack of Supporting Documentation
8/10/2006	6915	Gary Hardman	$19.53	Lack of Supporting Documentation
4/30/2007	7539	Gary Hardman	$23.13	Lack of Supporting Documentation
3/8/2007	6915	Gary Hardman	$10.70	Reimbursement that was already paid by School to original vendor on check #7334
		Total	$277.10	

In accordance with the foregoing facts and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Gary Hardman in the amount of $277.10 in favor of the New Choices Community School.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code 9.39: State ex. rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. No. 80-074.

Accordingly, a Finding for Recovery for public monies illegally expended are hereby issued against the Estate of Donald Paolo, jointly and severally, in the amount of $277.10. The Estate of Donald Paolo shall be liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Gary Hardman, in the total amount of $277.10.

Officials' Response:

No response was received for this finding.

FINDING NUMBER 2007-017

FINDING FOR RECOVERY REPAID UNDER AUDIT

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code.

Ohio Rev. Code Section 149.351 (A) states, in pertinent part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

Non-payroll expenditure testing resulted in unexplained expenditures that were for a duplicate payment of an invoice and a payment that was in excess of the supporting invoice as follows:

FINDING NUMBER 2007-017
(Continued)

Payments to Jenee Smith:

Date	Check Number	Vendor	Amount on Check Not Supported	Reason for Finding
4/25/2007	7453	Jenee Smith	$1,499.35	This is a duplicate payment that was already paid on check # 7379
4/30/2007	7548	Jenee Smith	258.50	Paid more than on invoice.
		Total	$1,757.85	

In accordance with the foregoing facts and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Jenee Smith in the amount of $1,757.85 in favor of the New Choices Community School.

The School's failure to monitor expenses for duplicate payments and failure to pay invoices at the proper amount could result in a loss of accountability over the School's finances, make it difficult to identify errors which could go undetected and possibly result in expenditures that are not actually due from the School.

Officials' Response:

On February 29, 2008 Ms. Jenee Smith repaid $1,757.85 by check.

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NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Ohio Rev. Code Section 3314.03 & AOS Bulletin 2000-005 – Failure to design and implement an internal control process that provides reasonable assurance of the integrity of the school's financial reporting.	No	Not Corrected – Repeated as finding 2007-001
2006-002	26 U.S.C 3402 (a) – Failure to remit Federal Income tax withholdings from employees wages	No	Not Corrected – Repeated as finding 2007-002
2006-003	26 U.S.C. 3102 (a) 26 U.S.C. 3111 (a) – Failure to remit Employee and Employer portions of Medicare to the United States Treasury.	No	Not Corrected – Repeated as finding 2007-003
2006-004	Ohio Rev. Code Section 5747.06(A) – Failure to remit Ohio Income tax to the Ohio Department of Taxation.	No	Not Corrected – Repeated as finding 2007-004
2006-005	Section 36.105(A) of the City of Dayton Income Tax Ordinance No. 30519-06 – Failure to remit city income taxes to the City of Dayton.	No	Not Corrected – Repeated as finding 2007-005
2006-006	Ohio Rev. Code Section 3307.26 – Failure to remit STRS withholdings from the employees' wages	No	Not Corrected – Repeated as finding 2007-006
2006-007	Ohio Rev. Code Section 3309.47 – Failure to remit SERS withholdings from the employees' wages.	No	Not Corrected – Repeated as finding 2007-007
2006-008	Ohio Adm. Code Section 117-2-02(D)(4)(c) – Failure to develop and implement board approved capital asset policy to address asset capitalization issues. Also, lack of a capital asset accounting system.	No	Not Corrected – Repeated as finding 2007-008
2006-009	Ohio Attorney General Opinion 82-006 – Payment of expenditures that are not for a proper public purpose.	No	Not Corrected – Repeated as finding 2007-009
2006-010	Posting Financial Activity errors, Posting Checks incorrectly to the accounting system, variances between invoices and payments, Duplicate payments, Detailed receipts not maintained.	No	Not Corrected – Repeated as finding 2007-010

2006-011	Failure to establish a risk assessment process to identify internal and external events that may occur that adversely affect entity's ability to record, process, summarize and report financial data consistently.	No	Not Corrected – Repeated as finding 2007-011
2006-012	Failure to record the receipt of loan and the outstanding loan balance at June 30, 2006 was not reported as a liability.	Yes	Corrected
2006-013	Understatement of Eastway Corporation Loan Payable	No	Not Corrected – Repeated as finding 2007-012
2006-014	Ohio Rev. Code Section 3314.011 – Failure to execute a bond for the Treasurer and the amount was not approved by the board.	No	Not Corrected – Repeated as finding 2007-013
2006-015	Finding for Recovery – Payroll Overpayments	No	Not Corrected - Repeated as finding 2007-015
2006-016	Ohio Rev. Code Sections 3314.03(A)(11)(d) and 149.351(A) – Findings for Recovery for expenditures made without supporting documentation.	No	Not Corrected - Repeated as finding 2007-016
2006-017	Ohio Attorney General Opinion 82-006 – Finding for Recovery for expenditures made for alcohol reimbursement and being reimbursed on same trip for mileage and gasoline.	Yes	Corrected

Mary Taylor, CPA
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
DECEMBER 8, 2009

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