The New City Community School

Montgomery County

Regular Audit

July 1, 2007 through June 30, 2008

Fiscal Year Audited Under GAGAS: 2008

CAUDILL & ASSOCIATES, CPA's

725 5th Street

Portsmouth, Ohio 45662

Mary Taylor, CPA
Auditor of State

Board of Directors
The New City Community School
1516 Salem Avenue
Dayton, Ohio 45406

We have reviewed the *Independent Auditor's Report* of the New City Community School, Montgomery County, prepared by Caudill & Associates, CPA's, for the audit period July 1, 2007 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The New City Community School is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 26, 2009

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The New City Community School
Table of Contents
For the Fiscal Year Ended June 30, 2008

CAUDILL & ASSOCIATES, CPA's
725 5th Street
Portsmouth, Ohio 45662

Member American Institute of Certified Public Accountants
Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

Independent Auditor's Report

The New City Community School
Montgomery County
1516 Salem Avenue
Dayton, Ohio 45406

To the Board of Directors:

We have audited the accompanying basic financial statements of the business-type activities of the New City Community School, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New City Community School, Montgomery County, Ohio, as of June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 15 to the financial statements, the School has incurred deficit spending and maintains a deficit balance that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainly.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Caudill & Associates, CPA's

Caudill & Associates, CPA's

March 31, 2009

The management's discussion and analysis of the New City School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the period from July 1, 2007 through June 30, 2008 are as follows:

In total, the accumulated deficit was ($98,829) at June 30, 2008.

The School had operating revenues of $798,181 and operating expenses of $1,123,355. The total change in net assets for the period was $103,490.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how the School did financially during fiscal year 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the School's net assets for fiscal years 2007 and 2008.

(Table 1)
Net Assets

	2007	2008	Change
Assets			
Current Assets	$4,700	$37,399	$32,699
Capital Assets, Net	25,757	21,118	(4,639)
Total Assets	30,457	58,517	28,060
Liabilities			
Current Liabilities	232,776	157,346	(75,430)
Total Liabilities	232,776	157,346	(75,430)
Net Assets			
Invested in Capital Assets	25,757	21,118	(4,639)
Unrestricted (Deficit)	(228,076)	(119,947)	108,129
Total Net Assets (Deficit)	($202,319)	($98,829)	$103,490

Total assets increased $28,060, as cash and cash equivalents increased by $35,355. Total liabilities decreased $75,430, due to payments to outstanding vendors. Total net assets increased $103,490, reducing the prior year deficit. Unrestricted net assets increased by $108,129.

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Table 2 shows the changes in net assets for fiscal years 2007 and 2008.

(Table 2)
Change in Net Assets

	2007	2008	Change
Operating Revenues			
State Foundation	$501,586	$798,181	$296,595
Total Operating Revenues	501,586	798,181	296,595
Non-Operating Revenues:			
Federal Grants	370,110	318,898	(51,212)
State Grants	8,158	12,324	4,166
Gifts and Contributions	117,870	94,636	(23,234)
Miscellaneous	4,129	2,806	(1,323)
Total Non-Operating Revenues	500,267	428,664	(71,603)
Total Revenues	1,001,853	1,226,845	224,992
Operating Expenses			
Salaries	406,450	528,450	122,000
Fringe Benefits	66,663	156,805	90,142
Purchased Services	278,324	280,623	2,299
Materials and Supplies	124,917	148,367	23,450
Depreciation	5,615	9,110	3,495
Other	2,267	0	(2,267)
Total Expenses	884,236	1,123,355	$239,119
Change in Net Assets	117,617	103,490	(14,127)
Net Assets (Deficit) at Beginning of Year	(319,936)	(202,319)	117,617
Net Assets (Deficit) at End of Year	($202,319)	($98,829)	103,490

There was an increase in revenues of $224,992 and an increase in expenses of $239,119 from fiscal year 2007. Of the increase in revenues, State Foundation money increased by $296,595 from 2007. This was due to an increase in State Foundation payments for increased student enrollment. However, there was a decrease of $23,234 for Gifts and Contribution, which offset the increase in tuition income.

Salaries increased by $122,000 from fiscal year 2007. This was due to the increased number of personnel and staff raises. This increase was primarily due to the fact that the School had an increase in enrollment which demanded more services to students.

Capital Assets

At the end of fiscal year 2008 the School had $40,557 invested in furniture and equipment. Table 3 shows fiscal year 2008.

(Table 3)
Capital Assets at June 30, 2008
(Net of Depreciation)

	2008
Furnitures and Equipment	$40,557
Accumulated Depreciation	(19,439)
Totals	$21,118

Debt Administration

At June 30, 2008, the School had several promissory notes outstanding in the amount of $113,800 to First United Methodist Church, Henry Brooks, Miami Valley Hospital, Howard Kidder, Ed Hest, and Mary Prior.

For more information on the School's debt, see Note 12 of the Basic Financial Statements.

Current Financial Issues and Concerns

The School is sponsored by the Lucas County Educational Service Center. The School relies on the State Foundation Funds as well as federal and state grants and private donations to provide the monies necessary to carry on the activities of the School.

The School has continued to rely on loans from the First United Methodist Church and Mr. Henry Brooks to meet its operational needs. Management of the School has made changes in its operations and works to reduce overall operating costs, without negatively impacting educational results. The School has revised its charter with the Lucas County Educational Service Center to concentrate on grades K through 8 and has decided to eliminate the program for teenage mothers. Moreover, a well planned effort will be made to increase enrollment.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Carl Shye, Treasurer at New City Community School, 1516 Salem Avenue, Dayton, Ohio 45406.

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	35,355
Foundation Grants Receivable	2,044
Total Current Assets	37,399
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net	21,118
Total Assets	58,517
Liabilities	
Current Liabilities:	
Accounts Payable	18,216
Intergovernmental Payable	25,330
Note Payable	113,800
Total Current Liabilities	157,346
Accumulated Deficit	
Invested in Capital Assets	21,118
Unrestricted	(119,947)
Total Accumulated Deficit	($98,829)

See accompanying notes to the basic financial statements

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating Revenues:	
State Foundation	$798,181
Total Operating Revenues	798,181
Operating Expenses:	
Salaries	528,450
Fringe Benefits	156,805
Purchased Services	280,623
Materials and Supplies	148,367
Depreciation	9,110
Total Operating Expenses	1,123,355
Operating Loss	(325,174)
Non-Operating Revenues:	
Federal and State Grants	331,222
Gifts and Donations	94,636
School Lunch Income	1,322
Miscellaneous	1,484
Total Non-Operating Revenues	428,664
Change in Net Assets	103,490
Accumulated Deficit - July 1, 2007	(202,319)
Accumulated Deficit - June 30, 2008	($98,829)

See accompanying notes to the basic financial statements

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows Provided by Operating Activities:	
Cash Received from State Foundation	800,837
Cash Payments to Employees for Services and Benefits	(725,133)
Cash Payments to Suppliers for Goods and Services	(428,990)
Net Cash Used for Operating Activities	(353,286)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants	295,690
Gifts and Donations	97,442
Net Cash Provided by Noncapital Financing Activities	393,132
Cash Flows for Capital and Related Financing Activities:	
Aquisiton of Capital Assets	(4,491)
Net Cash Used for Capital and Related Financing Activities	(4,491)
Net increase/decrease in Cash and Cash Equivalents	35,355
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	$35,355
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Loss	($325,174)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	9,110
Changes in Assets and Liabilities:	
Decrease in Foundation Grant Receivable	2,656
Increase in Accounts Payable	13,401
Decrease in Intergovernmental Payable	(53,279)
Total Adjustments	(28,112)
Net Cash Used in Operating Activities	($353,286)

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The New City School (the "School") is a 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to serve as a Charter/Community School for children with learning disabilities. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School provides opportunities for children with learning disabilities, develops and implements a research based curriculum, provides intense remediation to students, provides an educational and social resource for families of children with learning disabilities and performs all other incidental acts permitted under Title 17 of the Ohio Revised Code.

The School was approved under contract with its Sponsor, the Lucas County Educational Service Center, for a period of five years thru June 30, 2009. The School began operations on December 1, 2004. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the School.

The School operates under the direction of a Board of Directors, consisting of eight members. The Sponsor appoints one voting or one non-voting member of the Board at its sole discretion and also swears in all new or renewing Board members. The Directors serve for a period of three to five years on a staggered basis. Vacancies are filled by a majority vote of the remaining members. The Board of Directors is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers.

The primary government of the School consists of three funds, several departments and the Board that is not legally separate from the School. This includes general operations and student related activities of the School.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increase (i.e. revenues) and decreases (i.e. expenses) in total net assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's basic financial statements are prepared using the accrual basis of accounting.

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

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

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process (continued)

Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705, except the School must annually file a spending plan pursuant to Ohio Rev. Code Section 5705.391 with the Ohio Department of Education.

E. Cash

All monies received by the School are maintained in a demand deposit account.

F. Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the period in which services are consumed.

G. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School maintains a capitalization threshold of $1,000. The School does not have any infrastructure. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Machinery and Equipment	6-8 years

H. Net Assets and Accumulated Deficit

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reflected as "Restricted for Special Purposes" represents federal and state grants. The School had an accumulated deficit (liabilities were greater than assets) at June 30, 2008.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Net Assets and Accumulated Deficit (continued)

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation and personal leave time when earned for all employees.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the statement of net assets.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are payments from the State Foundation Program and sales of classroom supplies. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the School. All revenues and expenses not meeting these definitions are reported as non-operating.

L. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The School also participates in the Federal Title VI-B Grant Program and the State EMIS Grant. Under these programs, the School was awarded and received $318,898 and $12,324 respectively, during fiscal year 2008.

M. Estimates

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

NOTE 3 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying value of the School's deposits was $35,355, and the bank balance totaled $174,643. Of the bank balance, $100,000 was covered by federal depository insurance, and the remaining balance of $74,643 was collateralized with securities held in single financial institution collateral pools in the name of the respective depository bank and pledged as a pool of collateral against all of the public moneys it holds.

The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the period July 1, 2007, through June 30, 2008 was as follows:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Being Depreciated:				
Equipment	$3,976	$ -	-	$3,976
Office Equipment	1,422	4,491	-	5,913
Instructional Equipment	30,668	-	-	30,668
Total Capital Assets Being Depreciated	36,066	4,491	-	40,557
Less Accumulated Depreciation:				
Equipment	(1,441)	(1,090)	-	(2,531)
Office Equipment	(545)	(3,389)	-	(3,934)
Instructional Equipment	(8,343)	(4,631)	-	(12,974)
Total Accumulated Depreciation	(10,329)	(9,110)	-	(19,439)
Total Capital Assets Being Depreciated, Net	$25,737	($4,619)	$ -	$21,118

NOTE 5 – RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees and contracted personnel; and natural disasters. During the period July 1, 2007 through June 30, 2008, the School was named on the Sponsor's policy for property insurance and general liability insurance.

NOTE 5 – RISK MANAGEMENT (continued)

B. Workers' Compensation

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

NOTE 6 – PURCHASED SERVICES

For the period July 1, 2007 through June 30, 2008, purchased services were as follows:

Professional and Technical Services	$134,355
Property Services	134,780
Communications	8,366
Miscellaneous	3,122
Total Purchased Services	$280,623

NOTE 7 – PERSONNEL AGREEMENT

The School entered into a service contract for Treasurer Services. Total payments for the period July 1, 2007 through June 30, 2008 were $18,000.

NOTE 8 – OPERATING LEASES

The School entered into a rental agreement with the First U.M.C. Community Development Corporation for use of classrooms and office space. This agreement was for one academic year. According to the agreement, the rent was $7,000 per month. During the period July 1, 2007 through June 30, 2008, the School made total payments of $98,000. The lease has not been negotiated.

The School also assumed payment on a lease agreement between Alpha School and General Electric Capital Corporation for the use of an office copier. This agreement expires in July of 2009. According to the agreement, the rent is $115 per month. Required future payments according to the agreement are as follows:

Fiscal Year	Amount
2009	1,380
	$1,380

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

For the period July 1, 2007 through June 30, 2008, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute at an actuarially determined rate of 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 2008, 9.16 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 fiscal year 2008, 2007 and 2006 were $12,209, $4,835, and $5,469, 100% was contributed by the School for 2008, 2007, and 2006.

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling toll free (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 times 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.

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio (continued)

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 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 period July 1, 2007 through June 30, 2008, 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. 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 contribution for pension obligations to the DB Plan for fiscal year 2008, 2007 and 2006 were $76,014, $52,068 and $78,011; 100% was contributed by the School for 2008, 2007, and 2006.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

NOTE 10 – POSTEMPLOYEMENT BENEFITS

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 reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

NOTE 10 – POSTEMPLOYEMENT BENEFITS (continued)

All STRS Ohio benefit recipients and sponsored 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. Most 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, 2008, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $5,285 for the period July 1, 2007 through June 30, 2008.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2008 the balance in the Fund was $4.1 billion. For the fiscal year ended June 30, 2008 net health care costs paid by STRS Ohio were $540,493,000 and STRS Ohio had 126,506 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2008, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2008, the minimum pay was established at $30,000. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund healthcare benefits, including the surcharge, during the 2008 fiscal year equaled $10,569.

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 annual healthcare expenses. Expenses for health care for the fiscal year ended June 30, 2008 were $228,439,270. At June 30, 2008 SERS had net assets available for payment of health care benefits of $392.6 million. SERS has 76,075 participants eligible to receive health care benefits.

NOTE 11 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal leave and sick leave benefits are derived from employee contracts. Support staff, teachers and tutors earn five sick days and one personal day during a contract year. Support staff employees also earn ten vacation days during a contract year. For all employees, only five surplus days can be carried over to succeeding years.

NOTE 12 – SHORT-TERM OBLIGATIONS

Debt outstanding at June 30, 2008 was as follows:

	Principal at 7/01/07	Additions	Payments	Principal at 6/30/08
First United Methodist Church #4	4,400			4,400
First United Methodist Church #5	5,000			5,000
First United Methodist Church #6	5,000			5,000
First United Methodist Church #7	3,000			3,000
First United Methodist Church #8	9,500			9,500
First United Methodist Church #9	12,800			12,800
Henry Brooks	45,700			45,700
Miami Valley Hospital	14,000			14,000
Howard Kidder	8,200			8,200
Ed Heft	5,200			5,200
Mary Pryor	1,000			1,000
	$113,800	$0	$0	$113,800

The School did not make any principle payments on the notes from July 1, 2007 to June 30, 2008, as the School maintained a diligence to reduce vendor balances.

Total amount outstanding at fiscal year-end for the First United Methodist Church loans was $39,700. No payments were made toward the principal of this loan.

Total amount outstanding at fiscal year-end for the Henry Brooks loan was $45,700. No payments were made toward the principal of this loan.

Total amount outstanding at fiscal year-end for Miami Valley Hospital was $14,000. No payments were made toward the principal of this loan.

NOTE 12 – SHORT-TERM OBLIGATIONS (continued)

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

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

Mary Pryor granted the School a loan on September 20, 2005 in the amount of $1,000. No payments were made toward the principal of this loan.

All loans were granted at six percent interest except for the loan from Miami Valley Hospital which was granted at ten percent interest. However, as of June 30, 2008 interest payments had only been made on the loans from Henry Brooks in the amount of $3,122. The School plans to make all interest payments on the date on which the loans are closed.

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

NOTE 13 – RELATED PARTY TRANSACTIONS

During the period July 1, 2007 to June 30, 2008, the School contracted with the First U.M.C. Community Development Corporation for rent of classrooms and office space. Henry Brooks and Tim Forbess, both members of the Board of Directors of New City School, are Chairman of the Board of Trustees and President of the First U.M.C. Community Development Corporation. The School made payments of $7,000 per month for rent of the facility.

The School received a loan from Henry Brooks, a member of the Board of Directors, in the amount of $100,000 at zero percent interest. Amount outstanding as of June 30, 2008 was $45,700.

During the audit period, the School maintained several loans from the First United Methodist Church for a total of $39,700. Tim Forbess is the Pastor of the First United Methodist Church.

NOTE 14 – CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2008.

NOTE 14 – CONTINGENCIES (continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data of the State, upon which State foundation funding is calculated. One review was conducted during the period from July 1, 2007 through June 30, 2008. The review identified an underpayment of $2,044 to the School for fiscal year 2008.

C. Litigation

A suit was filed in Franklin County Common Please Court on May 14, 2001, alleging Ohio's Community (i.e. Charter) School's program violates the State Constitution and State laws. On April 21, 2003, the court dismissed the counts containing constitutional claim and stayed the other courts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the New City School is not presently determinable.

NOTE 15 – ACCUMULATED DEFICIT

The School operated with significant deficit spending (disbursements over receipts) during fiscal year 2008. At June 30, 2008 the School's deficit was $98,829.

The School has continued to rely on loans from the First United Methodist Church and Mr. Henry Brooks to meet its operational needs. Management of the School has made changes in its operations and is working to reduce overall operating costs, without negatively impacting educational results. The School has revised its charter with the Lucas County Educational Service Center to concentrate on grades K through 8 and has decided to eliminate the program for teenage mothers. Moreover, a well planned effort will be made to increase enrollment.

NOTE 16 – COMPLIANCE

Contrary to Ohio Rev. Code Section 117.38 the School's Fiscal Year 2008 report was not filed with the Auditor of State on time, and no notice of availability of the financial report was published.

Contrary to Ohio Rev. Code Section 121.22 board minutes were not presented for audit.

Contrary to Ohio Rev. Code Section 4123.25, the School did not present documentation for Bureau of Worker's Compensation.

CAUDILL & ASSOCIATES, CPA's
725 5th Street
Portsmouth, Ohio 45662

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Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The New City Community School
Montgomery County
1516 Salem Place
Dayton, Ohio 45406

To the Board of Directors:

We have audited the financial statements of The New City Community School, Montgomery, Ohio (the School) as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 31, 2009, wherein we noted that there was substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financing 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employee, in the normal course of 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 statement data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The results of our tests disclosed four instances of significant internal control deficiencies that are required to be reported under *Government Auditing Standards,* which are described in the accompanying schedule of findings and responses as items 2008-003, 2008-004, 2008-005, and 2008-006.

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.

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 considered to be material weaknesses. Of the significant deficiencies described above, we consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness in internal controls over financial reporting as item 2008-006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* which are described in the accompanying schedule of findings and responses as items 2008-001, 2008-002 and 2008-005.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated March 31, 2009.

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

This report is intended solely for the information and use of management, Board members, School's sponsor and the Ohio Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's

March 31, 2009

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

Finding No.2008-001
Noncompliance Citation – Failure to file report in accordance with ORC Section 117.38

Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the financial statements, and the schedules used to make these management decisions.

The Ohio Revised Code Section 117.38 mandates that GAAP-basis entities must file their reports with the Auditor of State within 150 days of the entity's end of the year. In addition, the public office must publish a notice in a local newspaper stating that the financial report is available for public inspection at the office of the chief fiscal officer.

The School's Fiscal Year 2008 report was not filed with the Auditor of State on time, and no notice of availability of the financial report was published.

The School should ensure that its financial reports are timely filed with the Auditor of State. In addition, the School should ensure that notice of availability of the financial reports is published in the newspapers as required by the Ohio Revised Code.

Client Response:

The School will make efforts to ensure compliance will be met.

Finding No.2008-002
Noncompliance Citation– Ohio Rev. Code Section 121.22

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

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

Failing to provide all of the School's minutes could result in confusion and doubt of the actions approved and not approved by the officials at meetings held to conduct school business.

The School should promptly record and make all minutes available for public inspection.

Client Response:

The School will ensure that all minutes are recorded and made available to the public.

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

Finding No.2008-003
Significant Internal Control Deficiency – Segregation of Duties

In an entity the size of the School, it is usually not cost effective to employ the basic internal accounting controls necessary to provide management with a reasonable assurance that all related procedures are functioning properly. The Treasurer is responsible for all functions relating to the accounting records.

Without the proper separation of duties, there is the possibility that errors or irregularities could occur and not be detected in a timely period.

To strengthen internal accounting and administrative controls, we recommend that a finance committee be appointed, comprised of members of the Board, to periodically review monthly financial statements to determine; whether proper accounting procedures are being followed; and that the bank reconciliations, cash journal and ledgers support the statements submitted.

In addition to performing such a review, officials' signatures or initials should be affixed to the documents reviewed, and a notation of such review and the results thereof should be noted in the School minutes.

Client Response:

The Board will develop internal control procedures that make, to the best extent possible, the segregation of duties for the receipting, expenditure, and cycles, and for the reconciliation of records.

Finding No.2008-004
Significant Internal Control Deficiency – Failure to obtain and maintain employee contracts

Two of the School's employees did not have contracts.

All employees of the School should be approved by the governing board and the hiring should be recorded in the board minutes including the salary rate and period of employment. Additionally, employment contracts should be prepared and signed by the employee and the appropriate school officials. Procedures should be developed and implemented to provide that all potential employees are approved by the Board prior to beginning work and that formal contracts, including salary rates and other expectations, are prepared and signed by both employee and school officials.

Client Response:

The School will ensure that employee contracts are obtained and maintained as appropriate in the future.

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

Finding No.2008-005
Non-Compliance/Significant Internal Control Deficiency – Payroll Records

Documentation of coverage under the Bureau of Worker's Compensation was not presented for audit.

Ohio Revised Code 4123.25 states that no employer shall knowingly misrepresent to the Bureau of Worker's Compensation the amount of classification of payroll upon which the premium under this chapter is based. Whoever violates this division shall be liable to the state in an amount determined by the administrator of worker's compensation for not more than ten times the amount of the difference between the premium paid and the amount the employer should have paid. The liability to the state under this division may be enforced in a civil action in the name of the state, and all sums collected under this division shall be paid into the state insurance fund.

The School should process the Bureau of Worker's Compensation reports in an accurate and timely manner based on the payroll expenditures and proper job classifications.

Client Response:

The School will make efforts to ensure all Bureau of Worker's Compensation reports are accurately completed and maintained.

Finding No.2008-006
Significant Internal Control Deficiency/Material Weakness – Bank Reconciliation Discrepancy

The School did not perform bank reconciliations on a monthly basis.

Monthly bank reconciliations should be performed accurately and consistently presented to the Board of Directors and documented in the minutes. Also, the corresponding ledgers should be updated to reflect the reconciliation. Inaccurate monthly reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected.

Client Response:

The School will make efforts to ensure all bank reconciliations are performed accurately and all discrepancies between the reconciliation and ledgers are addressed in a timely manner.

New City Community School
Montgomery County
Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 3008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	ORC Section – 117.38	No	Repeated as Finding 2008-001
2007-002	ORC Section – 121.22	No	Repeated as Finding 2008-002
2007-003	ORC Section – 3314.03(A)(10)	Yes	N/A
2007-004	ORC Section – 149.351	Yes	N/A
2007-005	Cash Reconciliation	Yes	N/A
2007-006	Failure to Obtain and Maintain Employee Contracts	No	Repeated as Finding 2008-004
2007-007	Excessive Overdraft Charges	Yes	N/A
2007-008	Payroll Records	No	Repeated as Finding 2008-005
2007-009	Segregation of Duties	No	Repeated as Finding 2008-003
2007-010	Bank Reconciliation Discrepancy	No	Repeated as Finding 2008-006
2007-011	Failure to Maintain a Capital Assets Listing	Yes	N/A
2007-012	Capital Assets capitalization threshold policy	Yes	N/A

Mary Taylor, CPA
Auditor of State

NEW CITY COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 8, 2009

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