



Mary Taylor, CPA
Auditor of State

MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Minster Community School
Auglaize County
100 East Seventh Street
Minster, Ohio 45865

To the Board of Directors:

We have audited the accompanying financial statements of the Minster Community School (MCS), Auglaize County, as of and for the years ended June 30, 2007 and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the MCS'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 our audit provides a reasonable basis for our opinion.

As disclosed in Note 10, on January 20, 2006, Minster Local School District, the Sponsor, voted to permanently close Minster Community School as of June 30, 2006 due to declining enrollment of the local school district.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minster Community School, Auglaize County, as of June 30, 2007 and June 30, 2006, and the changes in financial position and cash flows, thereof for the years 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 November 26, 2008, on our consideration of the MCS'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.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

November 26, 2008

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Minster Community School's (MCS) financial performance provides an overall review of MCS's financial activities for the fiscal years ended June 30, 2007 and 2006. Readers should also review the basic financial statements and notes to enhance their understanding of MCS's financial performance.

Highlights

MCS, a community school, during its second year of operations in fiscal year 2006 had one hundred thirty-four students participating in the program. MCS began operations as a school in fiscal year 2005. During fiscal year 2006, Minster Local School District, the Sponsor school district passed a resolution to permanently close the operations of MCS as of June 30, 2006.

Using the Basic Financial Statements

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 MCS did financially during fiscal year 2006. 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. For fiscal year 2007, the statement of revenues, expenses, and change in net assets reflects the financial activity which occurred to discontinue MCS operations.

These statements report MCS's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of MCS 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. A statement of net assets is not presented for fiscal year 2007 as MCS had closed its operations.

Table 1 provides a summary of MCS's net assets for fiscal years 2007, 2006 and fiscal year 2005:

Table 1			
Net Assets			
	2007	2006	2005
Assets:			
Current Assets	\$0	\$29,970	\$125,000
Non-Current Assets		45,333	54,576
Total Assets	\$0	75,303	179,576
Net Assets:			
Invested in Capital Assets		45,333	54,576
Restricted		29,970	125,000
Total Net Assets	\$0	\$75,303	\$179,576

At the end of fiscal year 2005, there was a significant receivable for grants outstanding. This was not the situation at the end of fiscal year 2006; therefore, the decrease in current assets. During fiscal year 2007, MCS sold their capital assets, paid all obligations, and refunded any remaining grant monies back to the State.

For 2006, unrestricted net assets decreased from MCS paying all obligations with available resources as of June 30, 2006.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

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

Table 2 reflects the change in net assets for fiscal years 2007, 2006 and fiscal year 2005.

**Table 2
Change in Net Assets**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues			
Foundation		\$802,744	\$661,066
Other Revenue	\$2		
Non-operating Revenues			
Grants		5,000	177,243
Total Revenues	<u>2</u>	<u>807,744</u>	<u>838,309</u>
Operating Expenses			
Purchased Services	4	897,809	753,721
Material and Supplies		60	
Depreciation		14,148	8,793
Other Expenses			33
Total Expenses	<u>4</u>	<u>912,017</u>	<u>762,547</u>
Operating Gain (Loss)	(2)	(104,273)	75,762
Extraordinary Item			
Discontinuance of Operations	(75,301)		
Increase/Decrease in Net Assets	<u>(75,303)</u>	<u>(104,273)</u>	<u>75,762</u>
Net Assets, Beginning of Year	75,303	179,576	103,814
Net Assets, End of Year	<u><u>\$0</u></u>	<u><u>\$75,303</u></u>	<u><u>\$179,576</u></u>

Foundation revenues increased in fiscal year 2006 from MCS operating for a full fiscal year. MCS only received an operating grant for EMIS in fiscal year 2006. In fiscal year 2005, MCS received operating grants from IDEA B and other federal grants. Purchased services consisted of costs associated with the operation of MCS that were provided by the Sponsor. Costs increased in fiscal year 2006 due to full fiscal year of operations.

The Sponsor (Minster Local School District) passed a resolution to permanently close MCS at the end of fiscal year 2006 due to declining enrollment of the local school district. During fiscal year 2007, MCS sold its capital assets to Minster Local School District for \$1.

Budgeting

MCS is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

At the end of fiscal year 2006, MCS had \$45,333 invested in capital assets (net of accumulated depreciation). During fiscal year 2006, MCS purchased \$4,905 in computer equipment. For further information regarding MCS's capital assets, refer to Note 5 to the basic financial statements. MCS sold their capital assets to Minster Local School District for \$1.

Contacting MCS's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of MCS's finances and to reflect MCS's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Laura S. Klosterman, Treasurer, Minster Community School, 100 East Seventh Street, Minster, Ohio 45865.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007 AND 2006**

Assets:	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current Assets:		
Cash and Cash Equivalents	\$0	\$4,064
Intergovernmental Receivable	<u> </u>	<u>25,906</u>
Total Current Assets		29,970
 Non-Current Assets:		
Depreciable Capital Assets, Net	<u> </u>	<u>45,333</u>
Total Assets		<u>75,303</u>
 Net Assets:		
Invested in Capital Assets		45,333
Restricted		<u>29,970</u>
Total Net Assets	<u><u>\$0</u></u>	<u><u>\$75,303</u></u>

See accompanying notes to basic financial statements.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006**

	June 30, 2007	June 30, 2006
Operating Revenues:		
Foundation		\$802,744
Other Revenue	\$2	
Total Operating Revenues	2	802,744
Operating Expenses:		
Purchased Services	4	897,809
Materials and Supplies		60
Depreciation		14,148
Total Operating Expenses	4	912,017
Operating Loss	(2)	(109,273)
Non-Operating Revenues:		
Operating Grants		5,000
Income/(Loss) Before Extraordinary Item	(2)	(104,273)
Extraordinary Item:		
Closeout Distributions	(75,301)	
Change in Net Assets	(75,303)	(104,273)
Net Assets at Beginning of Year	75,303	179,576
Net Assets at End of Year	\$0	\$75,303

See accompanying notes to the basic financial statements.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006**

Increase (Decrease) in Cash and Cash Equivalents	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash Flows from Operating Activities:		
Cash Received from Foundation		\$802,744
Cash Received from Other Sources	\$2	
Cash Payments for Services	(4)	(897,809)
Cash Payments for Materials and Supplies		(60)
Net Cash Used for Operating Activities	<u>(2)</u>	<u>(95,125)</u>
Cash Flows from Non-capital Financing Activities:		
Cash Received from Operating Grants	25,906	104,094
Cash Payments to Grantors	<u>(29,969)</u>	
Net Cash Used For Noncapital Financing Activities	<u>(4,063)</u>	<u>104,094</u>
Cash Flows from Capital Financing Activities:		
Acquisition of Capital Assets		(4,905)
Sale of Capital Assets	<u>1</u>	
Net Cash Flows from Capital Financing Activities	<u>1</u>	<u>(4,905)</u>
Net Increase in Cash and Cash Equivalents	(4,064)	4,064
Cash and Cash Equivalents at Beginning of Year	<u>4,064</u>	
Cash and Cash Equivalents at End of Year	<u><u>4,064</u></u>	<u><u>4,064</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	(2)	(109,273)
Adjustment to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		14,148
Net Cash Used for Operating Activities	<u><u>(\$2)</u></u>	<u><u>(\$95,125)</u></u>

Non-cash Non-capital Financing Activities

During fiscal year 2006, MCS recorded revenue for operating grants, in the amount of \$25,906; however, the cash was received in fiscal year 2007.

See accompanying notes to the basic financial statements.

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**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006**

1. DESCRIPTION OF THE SCHOOL

Minster Community School (MCS) was a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MCS's objective was to deliver students an education through smaller class sizes, varied and quality learning opportunities by identifying and addressing student needs, and team teaching opportunities for teachers. MCS, which was part of the State's education program, was nonsectarian in its programs, admissions policies, employment practices, and all other operations. MCS provided services to students in grades one through five for the fiscal year ended June 30, 2006.

MCS was approved for operation under a contract with the Minster Local School District (the Sponsor) for a five-year period commencing on April 1, 2003. The Sponsor is responsible for evaluating the performance of MCS and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent for MCS with the Treasurer of the Sponsor performing the role of Treasurer for MCS.

The Sponsor passed a resolution to permanently close MCS operations effective June 30, 2006. During fiscal year 2007, MCS completed the closeout procedures.

MCS operated under the direction of a five-member Board of Directors made up of the Superintendent, the High School Principal, the Middle School Principal, and an Elementary School Principal of the Minster Local School District, and one member from the community. The appointment to the Board of Directors was for one year. The Sponsor makes up a majority of the Board of Directors and the Sponsor can impose its will upon MCS; therefore, MCS is a component unit of the Minster Local School District. 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 qualifications of teachers. During fiscal year 2006, MCS purchased services from the Minster Local School District for the planning, design, implementation, instruction, administration, and technical services for MCS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of MCS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. MCS 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. MCS does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. Following are the more significant of MCS's accounting policies.

A. Basis of Presentation

MCS's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and change in net assets and a statement of cash flows.

MCS used enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

MCS is accounted for using a flow of economic resources measurement focus. The statement of revenues, expenses, and change in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how MCS financed and met its cash flow needs during fiscal year 2006 and the closeout for fiscal year 2007.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. MCS's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which MCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which MCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to MCS on a reimbursement basis. 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 the budgetary provisions set forth in Ohio Revised Code Chapter 5705, except Ohio Rev. Code Section 5705.391(A) which requires the school to prepare a 5 year projection of operational revenues and expenses. The contract between MCS and its Sponsor does prescribe an annual budget requirement.

E. Cash and Investments

Cash held by MCS is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2006, MCS had no investments.

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. MCS maintains a capitalization threshold of six hundred dollars. MCS does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs 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. Capital assets, currently consisting of furniture and equipment, are depreciated over five years.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by MCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. MCS first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

H. Intergovernmental Revenues

MCS participated in the State Foundation Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements in which MCS must provide local resources to be used for a specified purpose, and expenditure requirements in which the resources are provided to MCS on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in MCS. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by MCS. These reviews are conducted to ensure that accurate student enrollment data is reported to the State, upon which State foundation funding is calculated.

The remaining grants and entitlements received by MCS are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of MCS. Operating expenses are necessary costs incurred to provide the service that is the primary activity of MCS. All revenues and expenses not meeting this definition are reported as non-operating.

J. 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 those estimates.

K. Extraordinary Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. The extraordinary item reported on MCS's financial statements is to record the close out activity of the school. This amount consisted of \$29,969 in unused grant funds returned to the Ohio Department of Education and a reduction in capital assets of \$45,333 due to the sale of assets to the sponsor for \$1.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS

For fiscal year-end 2006, the carrying amount of the MCS's deposits and the bank balance was \$4,064. The entire bank balance was covered by federal depository insurance.

4. INTERGOVERNMENTAL RECEIVABLE

Receivables at June 30, 2006, consisted of an intergovernmental receivable arising from grants, in the amount of \$25,906. The receivable is considered collectible in full and within one year.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 and 2006 was as follows:

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07
Depreciable Capital Assets				
Furniture and Equipment	\$68,274		(\$63,274)	
Less Accumulated Depreciation	(22,941)		22,941	
Capital Assets, Net	\$45,333	\$0	(\$45,333)	\$0
	Balance 6/30/05	Additions	Reductions	Balance 6/30/06
Depreciable Capital Assets				
Furniture and Equipment	\$63,369	\$4,905		\$68,274
Less Accumulated Depreciation	(8,793)		(\$14,148)	(22,941)
Capital Assets, Net	\$54,576	\$4,905	(\$14,148)	\$45,333

6. RISK MANAGEMENT

MCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, MCS had the following insurance coverage through the Sponsor:

Coverage provided by the Ohio School Plan is as follows:

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000
Excess Liability	3,000,000

Settled claims have not exceeded this coverage in the last two fiscal years.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

7. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Minster Local School District shall serve as the fiscal officer of MCS.

The Treasurer of Minster Local School District shall perform the following functions while serving as the Treasurer of MCS:

- A. Maintain the financial records of MCS in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of MCS; and
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

8. RELATED PARTY TRANSACTIONS

In fiscal year 2006, purchased services were obtained from the Minster Local School District by MCS, in the amount of \$897,809. The purchased services consisted of the following activities:

<u>Service</u>	<u>Amount</u>
Salaries	\$582,499
Fringe Benefits	169,032
Purchased Services	58,322
Supplies	87,956
Total	<u>\$897,809</u>

9. CONTINGENCIES

A. Grants

MCS received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCS at June 30, 2006.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 conclusions of this review for fiscal year 2006 indicated that no significant adjustment was necessary.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

10. CLOSEOUT OF OPERATIONS

On January 20, 2006, the Minster Local School District Board of Education, the Sponsor, passed a resolution to permanently close MCS as of June 30, 2006 due to declining enrollment of the local school district. The remaining assets of MCS were distributed during fiscal year 2007. This distribution consisted of \$29,969 in unused grant funds returned to the Ohio Department of Education and a reduction in capital assets of \$45,333 due to the sale of the assets to Minster Local School District for \$1.



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*

Minster Community School
Auglaize County
100 East Seventh Street
Minster, Ohio 45865

To the Board of Directors:

We have audited the financial statements of Minster Community School, Auglaize County, (MCS) as of and for the years ended June 30, 2007 and June 30, 2006, and have issued our report thereon dated November 26, 2008, wherein we noted that the Sponsor passed a resolution to permanently close MCS as of June 30, 2006. 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 MCS'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 MCS's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the MCS's internal control over financial reporting.

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 MCS'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 MCS's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the MCS'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 findings and questioned costs as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to MCS's management in a separate letter dated November 26, 2008.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 26, 2008

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007 AND JUNE 30, 2006**

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

FINDING NUMBER 2007-001

Noncompliance - Close Out Procedures

Ohio Rev. Code Section 3314.074 establishes the order of the distribution of assets when a community school permanently closes and ceases operations. In addition, **Ohio Rev. Code Section 3314.015(e)** provides that the Ohio Department of Education (ODE) shall adopt procedures for use by a community school governing authority and sponsor when the school closes.

During May, 2006 the ODE's Office of Community Schools (OCS) issued the required procedures listing the actions to be taken by community school's Governing Authority (GA), Sponsors, and the ODE when closing a community school.

The OCS's "Community School Closing Procedures Guidance" requires a charter school to do the following:

Actions for the Governing Authority

Step 8 – Account for all school property throughout the closing process:

- a. Utilize fixed assets list and inventory to account for all items;
 - i. Establish fair market value via fixed asset policy;
 - ii. Establish check off list of purchasers and price of each item (and source of funds);
 - iii. Establish payment process; and
 - iv. Establish disposition plan for any remaining items.

Step 9 - Requires after the school has closed, to make disposition of school property (they shall):

- a. Notify all other community schools and traditional public schools of the date of the sale;
- b. Price items at fair market value;
- c. Federally purchased items (CCIP and grant purchased) need to be separately submitted to ODE, Office of Federal Programs and a request made regarding their dissemination(request to sell items to other schools towards debt satisfaction); and
- d. E-Tech (formerly known as Ohio SchoolNet) hardware and software must be returned to ETech to be redistributed per statutory requirements.

The Minster Community School (MCS) notified other community school sponsors of the assets available for sale. Upon unsuccessful sale of MCS assets to another community school the Board of Directors approved the sale of all of the school's assets to the Minster Local School District for \$1. MCS obtained guidance from private legal counsel that adherence to the remaining fixed asset liquidation procedures were not necessary. This guidance was inconsistent with Ohio Rev. Code 3314.074 and the distribution was not approved by the Ohio Department of Education.

The MCS maintained a capital asset inventory system to account for all capital assets purchased throughout its existence. As of June 30, 2006, MCS had capital assets net of accumulated depreciation of \$45,333. All capital assets were purchased by the MCS with Charter Public Schools Federal Grant or State Community School Start-up Grant funds. Upon closing, the capital assets were deleted from the MCS's inventory system and recorded as capital asset additions to the Minster Local School District's inventory system.

**FINDING NUMBER 2007-001
(Continued)**

The Ohio Department of Education Office of Community Schools offers to facilitate the sale of assets for community school who are ceasing operation. MCS did not utilize OCS's services and proceeded with selling the asset to the Minster Local School District, the sponsor. Although the Community School Contract entered into between MCS and Minster Local School District on April 1, 2003 states that "upon dissolution of the school any assets remaining will be conveyed to the sponsor", this is not allowed per OCS's guidance.

The actions taken by Minster Community School for disposal of assets were not in accordance with the guidelines issued by ODE for closing a community school. We recommend the School and/or Sponsor contact the ODE to rectify any outstanding items associated with the closing of the school and the noncompliance items listed above.

Officials' Response:

We refute the entirety of this finding based on an e-mail sent to ODE on the closing instruction (which state nothing about public auction-just offering to other schools) and our attorney's opinion.

Auditor Response:

MCS provided no evidence of a request submitted to ODE for the approval on the sale of assets purchased with federal funds per Step 9c of the above closeout rules.

FINDING NUMBER 2007-002

Questioned Costs

Federal Grant Expenditures – CFDA 84.282 Charter School Grant – Allowed Costs

USC Title 20, Subchapter V, Part B, Subpart 1, Section 7221c (f)(2) and (f)(3)(A) and(B) state, in part, that each eligible applicant receiving funds from the State Educational Agency under the Public Charter School Program shall use the funds to plan and implement a charter school. Charter schools may use the funds only for post-award planning and design of the educational program, and for initial implementation of a charter school.

Further, **USC Title 20, Subchapter V, Part B, Subpart 1, Section 7221a (c)(2)** provides that planning and implementation grants may be awarded for a period of not more than three years, with no more than 18 months used for planning and program design, and no more than two years used for initial implementation of the charter school.

A payment was made on June 21, 2006, by the Minster Community School to Minster Local School District for reimbursement of \$14,417 of federal implementation grant expenses. The billing included charges for five laser printers, and audio enhancement system at Minster Elementary School costing a total of \$14,417. The expenses were charged to the Charter School Federal Implementation Grant. On January 20, 2006 the Board of Directors had approved the permanent closure, effective June 30, 2006, of the Community School, which started operations on July 1, 2003. The assets and building improvements in the amount of \$14,417 would not have benefited the students of the Minster Community School, since the school ceased operations in June of 2006, and are considered questioned costs.

Officials' Response:

The officials chose not to respond to this finding.



Mary Taylor, CPA
Auditor of State

MINSTER COMMUNITY SCHOOL

AUGLAIZE 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
JANUARY 13, 2009**