



**Auditor of State
Betty Montgomery**

MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Prior Audit Findings.....	25

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Moraine Community School
Montgomery County
5656 Springboro Pike
Moraine, Ohio 45449

To the Governing Board:

We have audited the accompanying basic financial statements of the Moraine Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 21, 2005

**MORAINЕ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

The discussion and analysis Moraine Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets decreased \$288,131 during fiscal year 2004, which represents 79 percent decrease from fiscal year 2003, due exclusively to expenditures increasing over revenues.
- Total assets decreased \$217,826 which represents a 29.95 percent decrease from the prior year. The decrease is primarily due to decrease in accounts receivable and net capital assets.
- The operating loss reported for fiscal year 2004, \$335,543, was \$80,807 more than the operating loss reported for fiscal year 2003 or a 31.72 percent increase.

Using this Financial Report

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

Statement of Net Assets

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

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

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

Table 1 provides a summary of the School's net assets for fiscal year 2004 compared with fiscal year 2003.

	2004	2003
Assets:		
Current and other assets	\$45,334	\$124,963
Capital assets, net	464,178	602,375
Total Assets	509,512	727,338
Liabilities:		
Current liabilities	196,922	238,559
Non-current liabilities	236,349	124,408
Total Liabilities	433,271	362,967
Net Assets:		
Invested in capital assets	193,657	430,943
Restricted	20,056	119,887
Unrestricted	(137,472)	(186,459)
Total Net Assets	\$76,241	\$364,371

Total net assets of the School decreased by \$288,131 or 79 percent. The decrease in total net assets from fiscal year 2003 is due to the school receiving 89.03 percent less in federal subsidies and experiencing a 46.6 percent increase in salaries and related expenses. Additionally, this was the school's first full year of operation.

As noted in Table 1 above, total assets of the School decreased by \$ 217,826 from those reported at June 30, 2003. The decrease is due to decreases in receivables and a decrease in capital assets as a result of increases accumulated depreciation.

Total liabilities of the School increased \$70,304 over those reported at June 30, 2003. Accruals related to higher wage and benefit costs are the primary factor for the increase in current liabilities. The School also refinanced a loan and obtained a line of credit which is responsible for the increase in non-current liabilities.

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

**Table 2
Net Assets**

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Foundation payments	\$ 956,283	\$ 539,392
Disadvantage pupil	8,653	7,844
Other operating revenues	10,065	3,422
Non Operating Revenues:		
State and federal grants	48,030	437,932
Local grant revenue	15,175	
Gifts and donations	2,215	183,308
Total Revenues	<u>1,040,421</u>	<u>1,171,898</u>
Operating Expenses:		
Salaries	591,407	368,669
Fringe Benefits	141,627	69,144
Management company fees	11,250	
Building rental	90,000	80,837
Other purchased services	144,102	90,364
Materials and supplies	101,346	52,762
Depreciation	138,197	126,821
Other expenses	92,615	16,797
Non Operating Expenses:		
Interest and fiscal charges	18,008	9,389
Total Expenses	<u>1,328,552</u>	<u>814,783</u>
Change in net assets	(288,131)	357,115
Net assets, beginning of year	<u>364,372</u>	<u>7,257</u>
Net Assets, end of year	<u><u>\$ 76,241</u></u>	<u><u>\$ 364,372</u></u>

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

The increase in State foundation payments noted for fiscal year 2004 is the result of an increase in the number of students enrolled in the School as well as increases in the per pupil funding amount for fiscal year 2004. The decrease in state and federal grants was a result of the school no longer being eligible to receive the Ohio Public Charter School Program grant, which was received in the prior year and used to offset start up cost and capital expenditures.

Total expenses of the School reported the fiscal year were \$513,769 more than those reported for the previous fiscal year. Significant increases in payroll and related benefits, as well as purchased services and materials and supplies, account for the majority of the increases in expenses. Payroll and related benefit costs increased by \$295,221 over fiscal year 2003. Additional personnel, wage increases, increased cost of providing benefits, and the School experiencing increased enrollment are some of the reasons the cost of personnel increased in fiscal year 2004. The increase in purchased services and materials and supplies expense can also be attributed to increased enrollment over fiscal year 2003.

Capital Assets

At June 30, 2004 the capital assets of the School consisted of \$729,697 of equipment offset by \$265,519 in accumulated depreciation resulted in net capital assets of \$464,178. The \$ 138,197 decrease in total net capital assets from the prior year is due to current year depreciation of \$138,197.

See Note 6 of the notes to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2004, the debt obligations of the School consisted of a note payable of \$270,521 and a line of credit with \$45,583 borrowed against it at year end. See Notes 7 to the basic financial statements for additional details.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Moraine Community School, Inc. and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Moraine Community School, 5656 Springboro Pike, Moraine, OH 45449.

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

Assets

Current assets:

Cash and cash equivalents	\$25,278
Intergovernmental Receivable	<u>20,056</u>
Total current assets	45,334

Noncurrent assets:

Capital assets (net of accumulated depreciation)	<u>464,178</u>
Total assets	<u>509,512</u>

Liabilities

Current liabilities:

Accrued wages and benefits payable	74,307
Intergovernmental payable	37,209
Deferred revenue	60
Compensated absences payable	5,591
Line of credit payable	45,583
Notes payable	<u>34,172</u>

Total current liabilities 196,922

Noncurrent liabilities:

Notes payable	<u>236,349</u>
---------------	----------------

Total liabilities 433,271

Net Assets

Invested in capital assets, net of related debt	193,657
Restricted	20,056
Unrestricted	<u>(137,472)</u>

Total net assets \$76,241

See accompanying notes to the financial statements.

**MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

Operating revenues:	
Foundation payments	\$956,283
DPIA	8,653
Tuition and Fees	5,626
Miscellaneous revenue	4,439
	<hr/>
Total operating revenues	975,001
	<hr/>
Operating expenses:	
Salaries	591,407
Fringe benefits	141,627
Management company fees	11,250
Building rental	90,000
Other purchased services	144,102
Materials and supplies	101,346
Depreciation	138,197
Other	92,615
	<hr/>
Total operating expenses	1,310,544
	<hr/>
Operating loss	(335,543)
	<hr/>
Nonoperating revenues/(expenses):	
State and federal grant revenue	48,030
Local grant revenue	15,175
Gifts and donations	2,215
Interest and fiscal charges	(18,008)
	<hr/>
Net nonoperating revenues/(expenses)	47,412
	<hr/>
Change in net assets	(288,131)
	<hr/>
Net assets at beginning of year	364,372
	<hr/>
Net assets at end of year	\$76,241
	<hr/> <hr/>

See accompanying notes to the financial statements.

**MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash from State of Ohio	\$964,936
Cash payments to suppliers for goods and services	(343,535)
Cash payments to employees for services and benefits	(772,576)
Tuition and Fees	5,626
Other operating expenses	(92,615)
Other operating revenue	4,439

Net cash used for operating activities	(233,725)
--	-----------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from loans	134,999
Proceeds from line of credit	45,583
Principal paid on notes payable	(68,882)
Interest paid on notes payable	(18,008)
Federal and state subsidies	147,921
Local Grant Revenue	15,175
Contributions	2,215

Net cash provided by noncapital financing activities	259,003
--	---------

NET INCREASE IN CASH AND CASH EQUIVALENTS	25,278
--	---------------

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	0
---	----------

CASH AND CASH EQUIVALENTS, END OF YEAR	25,278
---	---------------

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	(335,543)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	

Depreciation	138,197
Changes in assets and liabilities:	
Decrease in prepaid expenses	5,076
Decrease in contracts payable	(86,883)
Increase in accrued wages payable	29,046
Decrease in accounts payable	(2,349)
Increase in intergovernmental payable	19,195
Decrease in compensated absences payable	(464)

Total Adjustments	101,818
-------------------	---------

Net Cash Used for Operating Activities	(\$233,725)
---	--------------------

See accompanying notes to the financial statements.

This page intentionally left blank.

**MORAINES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Moraine Community School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2001 through June 30, 2006 after which, the School must apply for an additional contract with the Sponsor. The School operates under a self-appointing five-member Board of Trustees (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by one principal, eleven full-time and part-time certified teaching personnel and two non-certified support personnel who provide services to an enrollment of 179 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of presentation

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

B. Measurement Focus And Basis Of Accounting

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Community schools must adopt a spending plan under Ohio Rev. Code Section 5705.391. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract.

The School's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School Principal and Treasurer are responsible for ensuring that purchases are made within these limits. However, any variances from the budgetary amounts are presented to the Board for subsequent approval.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash.

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated over the life of the lease agreement of six years.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the Title I Program, the Special Education Grants to States Program, the Drug Free Schools Program, the Innovative Educational Program Strategies Program, the Technology Literacy Challenge Fund Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, the Special Education Weighted revenue program and the Title II-A Program. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Amounts awarded under state and federal grant or entitlement programs for the 2004 school year totaled \$1,012,966.

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly the School's primary mission. For the School, operating revenues include foundation payments and disadvantaged pupil impact aid received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state and federal grants and interest expense comprise the non-operating revenues and expenses of the School.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2004, including:

Wages Payable – salary payments made after year-end that were for services rendered in rendered during fiscal year 2004. Teaching personnel are paid in 26 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2004 for all salary payments made to teaching personnel during the month of July 2004.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$37,209), associated with services rendered during fiscal year 2004, but were not paid until the subsequent fiscal year.

J. Federal Tax Exemption Status

The School has submitted the application and supporting documentation for a Federal tax exempt status under section 501(c) (3) of the Internal Revenue Code, but has not received official notification from the Internal Revenue Service. Even though the School has requested tax exempt status, the School would still be subject to filing the appropriate annual tax forms applicable to a non-tax exempt organization. For fiscal year 2004, the School did not file the appropriate annual tax forms. No provision has been made by the School for any potential current or future tax liability, which could result with the absence of the Federal tax exempt status under section 501 (c) (3).

K. 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 less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on the School financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements

4. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At June 30, 2004, the carrying amount of the School's deposits was \$25,278 and the bank balance was \$32,071, the entire balance of which was covered by federal depository insurance.

5. RECEIVABLES

Intergovernmental

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2004 consisted of the following federal grants in which all grant requirements had been satisfied, Title I (\$18,708), Title VI-A (\$60), and Student Intervention (\$1,288).

6. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2004, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Equipment	\$ 729,697		-	\$ 729,697
Less: accumulated depreciation on:				
Equipment	<u>(127,322)</u>	<u>(138,197)</u>	-	<u>(265,519)</u>
Capital assets, net	<u>\$ 602,375</u>	<u>(138,197)</u>	-	<u>\$ 464,178</u>

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. LOANS PAYABLE

The following is a summary of the note activity for the School for the year ended June 30, 2004:

	<u>Balance 6/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>	<u>Amount Due in One Year</u>
Farmers and Merchants Bank, 7.5%	\$ 171,432		(171,432)		
Farmers and Merchants Bank, 6.004%		300,000	(29,479)	270,521	34,172
Bridge Loan, 0%	<u>32,972</u>	-	<u>(32,972)</u>	-	-
Total	<u>\$ 204,404</u>	<u>\$300,000</u>	<u>\$(233,883)</u>	<u>\$270,521</u>	<u>\$ 34,172</u>

During fiscal year 2002, the School entered into a note agreement with Farmers and Merchants Bank in order to finance leasehold improvements. On September 4, 2003, the School refinanced the balance of the 2002 note payable to the Farmers and Merchants Bank to payoff the existing loan and finance the purchase and renovation of a new school building.

The Bridge Loan represents loans from members of the School's management who were willing to loan money for operating expenses and to facilitate cash flow on a short-term basis. These were paid off as of June 30, 2004.

On May 6, 2004, the School opened a line of credit with Farmers and Merchants Bank. The line of credit is available up to \$50,000 with a maturity date of May 6, 2005. It accrues interest of 6% per annum until May 7, 2004 and the rate thereafter will be 2% above the prime rate. On June 30, 2004, the School had borrowed \$45,583 against the line of credit.

Future principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2005	\$ 34,172	\$14,042
2006	39,482	13,116
2007	41,919	10,679
2008	44,506	8,091
2009	47,253	5,345
2010 - 2011	<u>63,189</u>	<u>2,559</u>
Total	<u>\$270,521</u>	<u>\$53,832</u>

**MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. RISK MANAGEMENT

A. Property and liability

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School contracted with the Cincinnati Insurance Company for business personal property, director and officer liability and general liability insurance. Business personal property coverage carries \$50,000 limit, and has a \$250 deductible and 90 percent coinsurance clause. Director and officer liability coverage is set at \$1,000,000 in the aggregate with a \$5,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

B. Employee Insurance Benefits

The School provides medical benefits through Anthem.

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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, the current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; at June 30, 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2004, and 2003 were \$36,455, and \$18,741, respectively; 82 percent has been contributed for 2004 and 100 percent for 2003.

B. State Teachers Retirement System

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

**MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute the statutory maximum of 10.0 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal year ended June 30, 2004 and 2003 were \$210,039 and \$90,129, respectively; 85 percent has been contributed for 2004 and 100 percent for 2003.

10. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B Coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

**MORAINES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.1 billion on June 30, 2004. For the School, this amount equaled \$15,003 during the 2004 fiscal year.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of on years of service, Medicare eligibility and retirement Status. As safety net is in place for retirees whose household income falls below federal poverty levels, premiums are reduced by 50 percent for those who apply.

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, 2004, the allocation rate is 4.91 percent. 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 2004, the minimum pay has been established at \$25,400. For the School, the amount to fund health care benefits, including the surcharge, was \$13,385 for fiscal year 2004.

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 annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

11. RESTRICTED NET ASSETS

At June 30, 2004 the School reported restricted net assets totaling \$20,056. The nature of the net asset restrictions are as follows:

Title I	\$18,708
Student Intervention Grant	1,288
Title IV-A Drug Free Schools	<u>60</u>
Total	<u>\$20,056</u>

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

12. AGREEMENTS WITH KEYS TO IMPROVING DAYTON SCHOOLS (KIDS) SCHOOL RESOURCE CENTER

The School is a party to a management agreement with Keys to Improving Dayton Schools (KIDS) School Resource Center, which is an education consulting and management company.

The Management Agreement's term coincides with the school's charter agreement and provides that KIDS School Resource Center will perform four functions reasonably required to manage the operation of the School. These four agreements are as follows:

- A. Basic Business Management Services, including oversight and management of facilities, equipment, utilities, technology, human resources, insurance, central office, state and federal reporting, setup/maintenance of student and staff data, transportation and other non-education aspects of the business operations of the School. The agreement for these basic business management services commences on June 1, 2004 and is continues for a 12-month period. KIDS School Resource Center receives a monthly management fee of \$4,333 for these services.
- B. SRC Transition Support, including general and specific support related to sustaining current accounting, treasurer and business operations. These SRC Transition Support services began on March 15, 2004 and ending on June 30, 2004. KIDS School Resource Center receives a monthly management fee of \$3,500 for these services.
- C. Standard Treasurer Services, including general ledger entries, basic record keeping required documents for state and federal governments, payroll processing, and basic accounting reports to Director and Board. This agreement is for an 18-month period starting July 1, 2004. KIDS School Resource Center receives a monthly management fee of \$2,000 for these services.
- D. Basic Financial Management Services, including all of the functions in Standard Treasurer Services Package plus SRC Financial Management Support Services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, and resource call support. This agreement is for an 18-month period beginning July 1, 2004. KIDS School Resource Center receives a monthly management fee of \$1,500 for these services.

13. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review are accurate.

**MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

13. CONTINGENCIES (Continued)

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts 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 education system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

14. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

15. OPERATING LEASES

The School leases its facilities from B.F. Hill Investments, Inc. under a six-year lease agreement beginning July 1, 2002 through June 30, 2008. Rent for fiscal year 2004 totaled \$90,000. The terms of the lease are not expected to change during fiscal year 2005.

16. RELATED PARTIES

During the fiscal year ending June 30, 2003, the Superintendent, Sue Fowler, provided the School with a personal loan, bearing no interest, totaling \$8,913 to provide cash flow during the first year of operations. This loan was not supported by a formal loan agreement or approved by the Board. The remaining amount due Ms. Fowler at June 30, 2003 was repaid in fiscal year 2004.

17. OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2004, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 61,778
Property Services	19,987
Meetings and travel	705
Communications	17,913
Utilities Communications	37,827
Contracted Craft or Trade Services	3,741
Pupil transportation	1,745
Other Purchased Services	406
	<hr/>
	\$144,102

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

18. COMPENSATED ABSENCES

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days. Upon retirement, payment is made up to a maximum of 120 days of sick leave when they resign or retire.

Vacation days are credited to classified employees each month. Vacation leave may be carried over. However, no more than three years of unused vacation leave is accumulated. Unused vacation time is paid upon termination of employment or retirement.

The total obligation for the School related to sick and vacation leave accrual, as of June 30, 2004 was \$5,591.

This page intentionally left blank.



Auditor of State Betty Montgomery

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

Moraine Community School
Montgomery County
5656 Springboro Pike
Moraine, Ohio 45449

To the Governing Board:

We have audited the financial statements of the business-type activities of the Moraine Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, which comprise the School's basic financial statements and have issued our report thereon dated October 21, 2005, wherein we noted that the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated October 21, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated October 21, 2005, we reported other matters related to noncompliance we did not deem reportable conditions.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

We intend this report solely for the information and use of the management and the Governing Board. It is not intended for anyone other than these specific parties.

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

Betty Montgomery
Auditor of State

October 21, 2005

**MORAINÉ COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2003-001	ORC Sec. 149.43 - Failure to retain public records.	No	Partially corrected. Reported as a management letter comment.
2003-002	Exhibit 2, Section 2.5 of the School's Contract with ODE - Failure to assign serial number to the school's Fixed Asset.	No	Partially corrected. Reported as a management letter comment.
2003-003	OAC Sec. 117-2-03(B) - Failure to file the annual financial report within 150 days after the close of the fiscal year.	Yes	Fully corrected. No exception noted during FY 2004 audit.
2003-004	Loans were not approved by the Board and there was no documentation.	Yes	Fully corrected. No exception noted during FY 2004 audit.
2003-005	Failure to have and implement purchasing policy and procedures	No	Partially corrected. Reported as a management letter comment.
2003-006	Carrying a negative cash book balance.	Yes	Corrected. No negative cash balance during FY 2004 audit
2003-007	Failure to remit 403(b) withholding money to MetLife in the amount of \$550.	Yes	Fully corrected. No exception noted during FY 2004 audit.
2003-008	Failure to have policies and procedures to have duplicate receipts are issued for monies received and maintaining supporting documentation.	Yes	Fully corrected. No exception noted during FY 2004 audit.

**MORAIN COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004
(Continued)**

2003-009	Failure to review the overpayment of miscellaneous purchases and salary payments of \$20,575 to the former Superintendent by the governing board.	Yes	Fully corrected. No exception noted during FY 2004 audit.
2003-10	Failure to establish provisions for federal, local and accrued taxes and consult with professionals to determine tax exempt filings with Internal Revenue (IRS).	No	During fiscal 2005, the school filled application for tax exempt status. Reported as a management letter comment.
2003-11	OMB Cir A-133, Subpart C, Sec 300(b) - Failed to implement internal controls over federal programs.	Yes	Fully corrected. No exception noted during FY 2004 audit.
2003-12	OMB Cir A-133, Subpart C, Sec. 300 - Failed to identify federal expenditures in the school accounting system.	Yes	Fully corrected. No exception noted during FY 2004 audit.
2003-13	Failed to submit final expenditure report and activities report within the required period.	Yes	Fully corrected. No exception noted during FY 2004 audit.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MORAINÉ 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
NOVEMBER 15, 2005**