MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants

Auditor of State
Betty Montgomery

Board of Trustees
Moraine Community School
5656 Springboro Pike
Moraine, Ohio 45449

We have reviewed the *Report of Independent Accountants* of the Moraine Community School, Montgomery County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 Moraine Community School is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 15, 2006

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MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY
For the Year Ending June 30, 2005

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees of
Moraine Community School
Moraine, Ohio

We have audited the accompanying basic financial statements of the Moraine Community School (the School) as of and for the year ended June 30, 2005, 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 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 the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 16, 2006 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
May 16, 2006

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, 2005. 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 2005 are as follows:

- Total net assets of the School decreased $165,431 in fiscal year 2005 compared to the $288,130 decrease in net assets reported in the prior year, or a 43 percent reduction. A significant factor contributing to the overall decrease in total net assets is the substantial amount of depreciation expense recognized on leasehold improvements. These improvements were initiated in the infancy stage of the school and must be depreciated over the term of the lease agreement (five years).

- Total assets decreased $113,979 which represents a 22.37 percent decrease from the prior year due to the decrease in net capital assets which is attributable to recording current year depreciation.

- Overall, the School's total revenue was $365,579 more than the total revenue received in the prior year while expenses increased by $242,880 compared with the prior year expenses.

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.

Table 1 provides a summary of the School's net assets for fiscal year 2005 compared with fiscal year 2004.

Table 1
Net Assets

	2005	2004
Assets:		
Current and other assets	66,623	45,334
Capital assets, net	328,910	464,178
Total Assets	395,533	509,512
Liabilities:		
Current liabilities	287,856	199,937
Non-current liabilities	196,867	233,334
Total Liabilities	484,723	433,271
Net Assets:		
Invested in capital assets	92,561	238,991
Restricted	42,300	20,056
Unrestricted	(224,051)	(182,806)
Total Net Assets	$ (89,190)	$ 76,241

The School's total net assets decreased by $165,431 during fiscal year 2005. The decrease in total net assets from fiscal year 2004 is due to the school experiencing a continued increase in the cost of salaries and benefits as well as the addition depreciation expense recognized on leasehold improvements capitalized in prior years.

As noted in Table 1 above, total current assets of the School increased by $21,289 from those reported at June 30, 2004. The increase is due to timing of grant payments received prior to year end in fiscal year 2004 that were not received at June 30, 2005.

Total liabilities of the School increased $51,452 over those reported at June 30, 2004. Accruals related to higher wage and related benefit costs are the primary factor for the increase in current liabilities. The School has continued to pay on a loan and has not acquired any new debt which is responsible for the decrease in non-current liabilities.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, as well as revenue and expense comparisons to fiscal year 2004.

Table 2
Net Assets

	2005	2004
Operating Revenues:		
Foundation payments	1,108,033	956,283
Disadvantage pupil	-	8,653
Other operating revenues	57,178	10,065
Non Operating Revenues:		
State and federal grants	210,789	48,030
Local grant revenue	-	15,175
Gifts and donations	30,000	2,215
Total Revenues	1,406,000	1,040,421
Operating Expenses:		
Salaries	796,205	591,406
Fringe Benefits	136,552	141,627
Management company fees	101,829	11,250
Building rental	98,724	90,000
Other purchased services	214,286	144,102
Materials and supplies	66,334	101,346
Depreciation	138,553	138,197
Other expenses	317	92,615
Non Operating Expenses:		
Interest and fiscal charges	18,631	18,008
Total Expenses	1,571,431	1,328,551
Change in net assets	(165,431)	(288,130)
Net assets, beginning of year	76,241	364,371
Net Assets, end of year	$ (89,190)	$ 76,241

The increase in State foundation payments noted for fiscal year 2005 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 2005. The increase in state and federal grants was a result of the school implementing education programs that are partially funded through federal and state grants. These educational programs were not in place in the prior year.

Total expenses of the School reported the fiscal year were $242,880 more than those reported for the previous fiscal year. 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 $199,724 over fiscal year 2004. 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 2005. The increase in purchased services and materials and supplies expense can also be attributed to increased enrollment over fiscal year 2004.

Capital Assets

At June 30, 2005, the capital assets of the School consisted of $732,982 of equipment offset by $404,072 in accumulated depreciation resulted in net capital assets of $328,910. The $135,268 decrease in total net capital assets from the prior year is due to current year depreciation of $138,553 combined with $3,285 of equipment acquired during fiscal year 2005. Equipment purchased during fiscal year 2005 included food service equipment.

See Note 5 of the notes to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2005, the debt obligations of the School consisted of a note payable of $236,349 and a line of credit with $45,583 borrowed against it at year end.

See Notes 6 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.

MORAINE COMMUNITY SCHOOL

Statement of Net Assets

June 30, 2005

Assets		
Current assets:		
Cash and cash equivalents	$	15,475
Receivables:		
Intergovernmental		42,300
Prepaid expenses		8,848
Total current assets		66,623
Noncurrent assets:		
Capital assets (net of accumulated depreciation)		328,910
Total assets		395,533
Liabilities		
Current liabilities:		
Accounts payable		17,732
Accrued wages & benefits payable		140,045
Intergovernmental payable		23,268
Compensated absences payable		21,746
Line of credit payable		45,583
Notes payable		39,482
Total current liabilities		287,856
Noncurrent liabilities:		
Notes payable		196,867
Total liabilities		484,723
Net Assets		
Invested in capital assets, net of related debt		92,561
Restricted		42,300
Unrestricted		(224,051)
Total net assets	$	(89,190)

See accompanying notes to the financial statements.

MORAINE COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2005

Operating revenues:		
Foundation payments	$	1,108,033
Tuition and Fees		39,324
Miscellaneous revenue		17,854
Total operating revenues		1,165,211
Operating expenses:		
Salaries		796,205
Fringe benefits		136,552
Management company fees		101,829
Building rental		98,724
Other purchased services		214,286
Materials and supplies		66,334
Depreciation		138,553
Other		317
Total operating expenses		1,552,800
Operating loss		(387,589)
Nonoperating revenues/(expenses):		
State and federal grant revenue		210,789
Gifts and donations		30,000
Interest and fiscal charges		(18,631)
Net nonoperating revenues		222,158
Change in net assets		(165,431)
Net assets at beginning of year		76,241
Net assets at end of year	$	(89,190)

See accompanying notes to the financial statements.

MORAINE COMMUNITY SCHOOL
Statement of Cash Flows
Year Ended June 30, 2005

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2005
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 1,108,033
Cash Payments to Suppliers for Goods and Services	(271,736)
Cash Payments to Employees for Services and Benefits	(864,805)
Tuition and Fees	39,324
Other Operating Revenues	17,854
Other Operating Expenses	(200,870)
Net Cash (Used for) Operating Activities	(172,200)
Cash Flows from Noncapital Financing Activities	
Federal and State Grants Received	188,485
Line of Credit and Loan Interest Payments	(6,516)
Contributions	30,000
Net Cash Provided by Noncapital Financing Activities	211,969
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(3,285)
Principal paid on Notes Payable	(270,521)
Proceeds of Notes	236,349
Interest paid on Notes Payable	(12,115)
Net Cash (Used for) Capital and Related Financing Activities	(49,572)
Net (Decrease) in Cash and Cash Equivalents	(9,803)
Cash and Cash Equivalents Beginning of Year	25,278
Cash and Cash Equivalents End of Year	$ 15,475
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating (Loss)	$ (387,589)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by (Used in) Operating Activities	
Depreciation	138,553
Changes in Assets and Liabilities:	
Prepaid Expenses	(8,848)
Accounts Payable	17,732
Accrued Wages and Benefits	65,738
Intergovernmental Payable	(13,941)
Compensated Absences Payable	16,155
Net Cash (Used in) Operating Activities	$ (172,200)

See accompanying notes to the financial statements.

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 two principals, sixteen full-time and two part-time certified teaching personnel and three non-certified support personnel who provide services to an enrollment of 176 students.

2. Summary of Significant Accounting Policies:

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

A. Basis of presentation

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

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.

C. Budgetary process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

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 2005 school year totaled $1,318,822.

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, 2005, including:

Wages Payable – salary payments made after year-end that were for services rendered in rendered in fiscal year 2005. Teaching personnel are paid in 26 equal installments, ending with the last pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2005 for all salary payments made to teaching personnel during the month of July and August 2005.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($23,268), associated with services rendered during fiscal year 2005, but were not paid until the subsequent fiscal year.

J. Federal tax exemption status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

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.

3. Deposits and Investments:

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2005, the carrying amount of the School's deposits was $15,475 and the bank balance was $39,595, the entire balance of which was covered by federal depository insurance.

4. Receivables:

A. 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, 2005 consisted of the following federal grants in which all grant requirements had been satisfied, Title I ($31,455), Title VI-A ($542), Title VI-B ($3,320), Title V ($816), Title II-A ($5,423) and Title II-D ($744).

5. Capital Assets:

A summary of the School's capital assets at June 30, 2005, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Equipment	$ 729,697	3,285	-	$ 732,982
Less: accumulated depreciation on:				
Equipment	(265,519)	(138,553)	-	(404,072)
Capital assets, net	$ 464,178	(135,268)	-	$ 328,910

6. Loans Payable:

The following is a summary of the note activity for the School for the year ended June 30, 2005:

	Balance 6/30/04	Additions	Deletions	Balances 6/30/05	Amount Due within One Year
Farmers and Merchants Bank, 6.0%	$ 270,521	$ -	$ 34,172	$ 236,349	$ 39,482

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, 2004, 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 School has 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, 2006. It accrues interest of 8% per annum until May 6, 2005 and the rate thereafter will be 2% above the prime rate. On June 30, 2005, the School had borrowed $45,583 against the line of credit.

Future principal and interest payments are as follows:

	Principal	**Interest**
2006	$ 39,482	$ 13,116
2007	41,919	10,679
2008	44,506	8,091
2009	47,253	5,345
2010 - 2011	63,189	2,559
Total	$ 236,349	$ 39,790

7. Risk Management:

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 2005, the School contracted with the Cincinnati Insurance Company for business personal property and general liability insurance. Business personal property coverage carries $1,500,000 limit, and has a $,1000 deductible. General liability coverage is set at $1,000,000 in the aggregate with a $5,000 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.

Employee insurance benefits – The School provides medical benefits through Anthem.

8. 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 Statue 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, 2005, 10.57 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, 2005, 2004 and 2003 were $17,181, $36,455, and $18,741, respectively; 83 percent has been contributed for 2005 and 100 percent for 2004 and 2003, respectively.

B. State Teachers Retirement System

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

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, 2005, 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, 2005, 2004 and 2003 were $155,406, $210,039 and $90,129, respectively; 87 percent has been contributed for 2005 and 100 percent for 2004 and 2003, respectively.

9. 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.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal years ended June 30, 2005 and June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005. For the School, this amount equaled $11,100 during the 2005 fiscal year.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 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 service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005 the allocation rate is 3.43 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 2005, the minimum pay has been established at $27,400. 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. For the School, the amount to fund health care benefits, including the surcharge, was $6,015 for fiscal year 2005.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premiums contributed for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of participants eligible to receive benefits at June 30, 2005 was 58,123.

10. Restricted Net Assets:

At June 30, 2005 the School reported restricted net assets totaling $42,300. The nature of the net asset restrictions are as follows:

Title I	$ 31,455
Title VI-B	3,320
Title V	816
Title II-A	5,423
Title II-D	744
Title IV-A Drug Free Schools	542
Total	$ 42,300

11. 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:

1. 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, 2005 and is continues for a 12-month period. KIDS School Resource Center receives a monthly management fee of $4,333 for these services.

2. 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, 2005 and ending on June 30, 2005. KIDS School Resource Center receives a monthly management fee of $3,500 for these services.

3. 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, 2005. KIDS School Resource Center receives a monthly management fee of $2,000 for these services.

4. 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, 2005. KIDS School Resource Center receives a monthly management fee of $1,500 for these services.

12. 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 could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2005, as a result of such review.

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, 2004, 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, 2004. On August 24, 2005, 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.

13. 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.

14. 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 2005 totaled $98,724. The terms of the lease are not expected to change during fiscal year 2006.

15. Other Purchased Services:

During the fiscal year ended June 30, 2005, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$	82,116
Property Services		45,767
Meetings and travel		260
Communications		12,018
Utilities		44,420
Contracted Craft or Trade Services		27,027
Pupil transportation		2,458
Other Purchased Services		220
	$	214,286

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Moraine Community School
Moraine, Ohio

We have audited the financial statements of the Moraine Community School (the "School") as of and for the year ended June 30, 2005 and have issued a report thereon dated May 16, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of 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 internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated May 16, 2006.

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, grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated May 16, 2006.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.
May 16, 2006

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2004, reported no material citations or recommendations.

Auditor of State
Betty Montgomery

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MORAINE 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 28, 2006