MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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

Mary Taylor, CPA
Auditor of State

Board of Trustees
Moraine Community School
5656 Springboro Pike
Dayton, 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, 2005 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2007

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MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY
For the Year Ending June 30, 2006

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Moraine Community School (the School) as of and for the year ended June 30, 2006, 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 provide 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, 2006, 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 February 24, 2007 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.
February 24, 2007

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, 2006. 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 2006 are as follows:

- Total net assets of the School increased $40,289 in fiscal year 2006 resulting in an ending deficit net asset amount of $48,901. In fiscal year 2005, the School reported a decrease in net assets totaling $165,431.

- Total assets decreased $111,944 which represents a 28.3 percent decrease from the prior year due to the decrease in net capital assets which is attributable to recording current year depreciation and a reduction in intergovernmental receivable at year end.

- Overall, the School's total revenue was $42,678 more than the total revenue received in the prior year while expenses decreased by $160,128 compared with the prior year expenses. The decrease in operating expenses was primarily due to the School employing fewer employees during fiscal year 2006 compared to fiscal year 2005.

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 2006 compared with fiscal year 2005.

TABLE 1
NET ASSETS

	2006	2005
Assets:		
Current and other assets	$ 54,873	$ 66,623
Capital assets, net	228,716	328,910
Total Assets	283,589	395,533
Liabilities:		
Current liabilities	177,542	287,856
Non-current liabilities	154,948	196,867
Total Liabilities	332,490	484,723
Net Assets:		
Invested in capital assets	31,849	92,561
Restricted	38,220	42,300
Unrestricted	(118,970)	(224,051)
Total Net Assets	$ (48,901)	$ (89,190)

The School's total net assets increased by $40,289 during fiscal year 2006. The increase resulted from a reduction of positions by management during the fiscal year to address the financial well-being of the school.

As noted in Table 1 above, total current assets of the School decreased by $11,750 from those reported at June 30, 2005. The decrease resulted from the School not recognizing grants receivable for fiscal year 2006 as it had for fiscal year 2005. In fiscal year 2006 the School received all grant funding it was allocated whereas in the prior year the School ended the year with balances in those grants that carried over to subsequent periods. Cash on hand at June 30, 2006 was $48,652 compared with $15,475 reported the prior year. The increase in cash is attributable to more positive operating results for fiscal year 2006.

Total liabilities of the School decreased $152,233 over those reported at June 30, 2005. Accruals related wage and related benefits earned by employees during the fiscal year but which are not paid until after year-end were $93,673 less than those reported for the prior year. In fiscal year 2005 there were five payroll periods accrued during the summer months compared with the four accrued for this year. In addition, the School reduced the number of positions during the year which also dramatically impacted the accrued wage and benefit liability reported at year-end. Finally, the School repaid the entire line-of-credit liability reported at June 30, 2005 during the year which was approximately $45,000.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, as well as revenue and expense comparisons to fiscal year 2005.

TABLE 2
CHANGE IN NET ASSETS

	2006	2005
Operating Revenues:		
Foundation payments	$ 1,155,731	$ 1,108,033
Other operating revenues	52,158	57,178
Non Operating Revenues:		
State and federal grants	234,142	210,789
Gifts and donations	4,047	30,000
Total Revenues	1,446,078	1,406,000
Operating Expenses:		
Salaries	603,778	796,205
Fringe Benefits	117,106	136,552
Management and Fiscal Services	90,780	101,829
Building rental	117,898	98,724
Other purchased services	278,245	214,286
Materials and supplies	54,981	66,334
Depreciation	128,985	138,553
Other expenses	899	317
Non Operating Expenses:		
Interest and fiscal charges	13,117	18,631
Total Expenses	1,405,789	1,571,431
Change in net assets	40,289	(165,431)
Net assets, beginning of year	(89,190)	76,241
Net Assets, end of year	$ (48,901)	$ (89,190)

Total revenue for the School increased $40,078 in fiscal year 2006 compared with fiscal year 2005. Increases in the number of students enrolled in the School and a slight increase in the per-pupil funding amount resulted in the revenues associated with the State Foundation funding being $47,698 higher than the previous year. State and Federal grant programs were $23,353 more than the previous year as the School qualified for additional grants. These increases were somewhat offset by the reduction in contributions which was expected as there was a one-time large donation received in fiscal year 2005.

Total expenses of the School reported the fiscal year were $165,642 less than those reported for the previous fiscal year. Decreases in payroll and related benefits account for the majority of the increases in expenses. Payroll and related benefit costs decreased by $211,873 over fiscal year 2005 as the number of positions at the School were reduced during fiscal year 2006 to address is long-term financial well-being. While some other expense categories did increase during the year, the School was still able to end the year with a $40,289 increase in net assets.

Capital Assets

At June 30, 2006, the capital assets of the School consisted of $761,773 of equipment offset by $533,057 in accumulated depreciation resulted in net capital assets of $228,716. The $100,194 decrease in total net capital assets from the prior year is due to current year depreciation of $128,985 combined with $28,791 of equipment acquired during fiscal year 2006. Equipment purchased during fiscal year 2006 consisted entirely of computers and related electronic 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, 2006, the debt obligations of the School consisted of a note payable of $196,867, of which $41,919 is due within the next year. During fiscal year 2006 the School was able to pay-off its line-of-credit of just over $45,000 as well as $39,482 on the note payable.

See Note 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, 2006

Assets	
Current assets:	
Cash and cash equivalents	$ 48,652
Prepaid expenses	6,221
Total current assets	54,873
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	228,716
Total assets	283,589
Liabilities	
Current liabilities:	
Accounts payable	65,983
Accrued wages & benefits payable	57,616
Intergovernmental payable	12,024
Notes payable	41,919
Total current liabilities	177,542
Noncurrent liabilities:	
Notes payable, net of current portion	154,948
Total liabilities	332,490
Net Assets	
Invested in capital assets, net of related debt	31,849
Restricted	38,220
Unrestricted	(118,970)
Total net assets	$ (48,901)

See accompanying notes to the financial statements.

MORAINE COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

Operating revenues:	
Foundation payments	$ 1,155,731
Tuition and Fees	41,100
Miscellaneous revenue	11,058
Total operating revenues	1,207,889
Operating expenses:	
Salaries	603,778
Fringe benefits	117,106
Contract management and fiscal services	90,780
Building rental	117,898
Other purchased services	278,245
Materials and supplies	54,981
Depreciation	128,985
Other	899
Total operating expenses	1,392,672
Operating loss	(184,783)
Nonoperating revenues/(expenses):	
State and federal grant revenue	234,142
Gifts and donations	4,047
Interest and fiscal charges	(13,117)
Net nonoperating revenues	225,072
Change in net assets	40,289
Net assets at beginning of year	(89,190)
Net assets at end of year	$ (48,901)

See accompanying notes to the financial statements.

MORAINE COMMUNITY SCHOOL

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from State of Ohio		$ 1,155,731
Cash payments to suppliers for goods and services		(489,701)
Cash payments to employees for services and benefits		(837,628)
Tuition and Fees		41,100
Other operating expenses		(899)
Other operating revenue		11,058
Net cash used for operating activities		(120,339)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest paid on line of credit		(3,296)
Principal paid on line of credit		(45,583)
Federal and state subsidies		276,442
Contributions		4,047
Net cash provided by noncapital financing activities		231,610
CASH FLOWS FROM CAPTIAL AND RELATED FINANCING ACTIVITIES		
Cash payments for capital acquisitions		(28,791)
Principal paid on notes payable		(39,482)
Interest paid on notes payable		(9,821)
Net cash used for captial and related financing activities		(78,094)
NET INCREASE IN CASH AND CASH EQUIVALENTS		33,177
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		15,475
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 48,652
RECONCILIATION OF OPERATING INCOME TO NET CASH PROIVIDED BY OPERATING ACTIVITIES		
Operating loss	$	(184,783)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		128,985
Changes in assets and liabilities:		
Decrease in prepaid expenses		2,627
Decrease in accrued wages payable		(82,429)
Increase in accounts payable		48,251
Decrease in intergovernmental payable		(11,244)
Decrease in compensated absences payable		(21,746)
Total Adjustments		64,444
Net Cash Used for Operating Activities	$	(120,339)

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 to provide educational services to an enrollment of 193 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 cash is segregated into various funds.

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 foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state educational grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the State Foundation Program totaled $1,155,731 and revenues associated with specific educational grants from the state and federal governments totaled $234,142 during fiscal year 2006.

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 received from the State of Ohio and certain charges to students recorded as tuition and fees. 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, gifts and donations, 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, 2006, including:

Wages Payable – salary payments made after year-end that were for services rendered in rendered in fiscal year 2006. 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, 2006 for all salary payments made to teaching personnel during the months of July and August 2005.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($10,410), associated with services rendered during fiscal year 2006, 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, 2006, the carrying amount of the School's deposits was $48,652 and the bank balance was $69,061, the entire balance of which was covered by federal depository insurance.

4. Prepaid Expenses:

The prepaid expense amount reported on the statement of net assets represents rental payments for the building which were made during fiscal year 2006 but were actually for July 2006.

5. Capital Assets:

A summary of the School's capital assets at June 30, 2006, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Equipment	$ 732,982	28,791	-	$ 761,773
Less: accumulated depreciation on:				
Equipment	(404,072)	(128,985)	-	(533,057)
Capital assets, net	$ 328,910	(100,194)	-	$ 228,716

6. Debt Obligations:

The following is a summary of the note activity for the School for the year ended June 30, 2006:

	Balance 6/30/05	Additions	Deletions	Balances 6/30/06	Amount Due within One Year
Farmers and Merchants Bank, 6.0%	$ 236,349	$ -	$ 39,482	$ 196,867	$ 41,919

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.

In addition, at June 30, 2005 the School had a $50,000 line of credit available with $45,583 being borrowed as of that date. During fiscal year 2006, the School repaid the amount borrowed against the line of credit.

Future principal and interest payments associated with the long-term notes payable are as follows:

	Principal	Interest
2007	$ 41,919	$ 10,679
2008	44,506	8,091
2009	47,253	5,345
2010	50,170	2,428
2011	13,019	130
Total	$ 196,867	$ 26,673

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 2006, 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 $1,000 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were $12,554, $17,181, and $36,455, respectively; 84 percent has been contributed for 2006 and 100 percent for 2005 and 2004, 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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were $70,656, $155,406, and $210,039, respectively; 89 percent has been contributed for 2006 and 100 percent for 2005 and 2004, respectively.

9. Postemployment Benefits

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $5,047 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $3,067.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

10. Restricted Net Assets:

At June 30, 2006 the School reported restricted net assets totaling $38,220. The nature of the net asset restrictions are as follows:

Title I Grant	$ 17,048
Title II-A Grant	5,335
Title II-D Grant	9,287
Other Educational Grants	6,550
Total	$ 38,220

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, 2006. 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. The Ohio Department of Education completed its review of the School's enrollment data for fiscal year 2006 which did not result in any material adjustments to the funding received.

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. 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 2006 totaled $117,898. The terms of the lease are not expected to change significantly during fiscal year 2007.

14. Other Purchased Services:

During the fiscal year ended June 30, 2006, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$	135,673
Property Services		22,204
Meetings and travel		1,349
Communications		7,789
Utilities		44,395
Contracted Craft or Trade Services		51,397
Pupil transportation		948
Other Purchased Services		14,490
	$	278,245

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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*

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

To the Board of Trustees:

We have audited the financial statements of the Moraine Community School (the "School") as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued a report thereon dated February 24, 2007. 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.

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, noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated February 24, 2007.

This report is intended solely for the information and use of the 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.
February 24, 2007

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2005, reported no material citations or recommendations.

Mary Taylor, CPA
Auditor of State

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
MAY 10, 2007