MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governance:

We have audited the accompanying balance sheet of the Moraine Community School, Montgomery County, (the School), as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. 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.

Except as discussed in the following paragraph, 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.

The School has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to such income tax. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

Because of the departure referred to in the preceding paragraph, net income and retained earnings are overstated and liabilities for accrued income taxes is understated by amounts which, while material, we are unable to determine.

In our opinion, except for the effects of not recording tax expense or accrued taxes payable as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Moraine Community School, Montgomery County, as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

August 19, 2004

MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003

ASSETS	
Current assets	
Intergovernmental Receivable	$119,887
Prepaid expenses	5,076
Total current assets	124,963
Non-Current Assets	
Fixed assets (net of accumulated depreciation)	602,375
Total assets	727,338
LIABILITIES AND EQUITY	
Current liabilities	
Accounts payable	1,913
Cash Overdraft Payable	436
Contracts payable	86,884
Accrued wages & benefits payable	45,261
Intergovernmental payable	18,014
Compensated absences payable	6,055
Loans payable	79,996
Total current liabilities	238,559
Noncurrent liabilities	
Loans payable	124,408
Total liabilities	362,967
Equity	
Retained earnings	364,371
Total liabilities and equity	$727,338

See accompanying notes to the financial statements

MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues	
Foundation payments	$516,799
Disadvantaged Public Impact Aid	7,844
Special Education Weighted revenue	22,593
Miscellaneous revenue	3,422
Total operating revenues	550,658
Operating Expenses	
Salaries	368,669
Fringe benefits	69,144
Building rental	80,837
Other purchased services	90,364
Materials and supplies	52,762
Depreciation	126,821
Other	16,797
Total operating expenses	805,394
Operating loss	(254,736)
Non-operating revenues/(expenses)	
Federal and State grant revenue	437,932
Gifts and donations	183,308
Interest and fiscal charges	(9,389)
Total Nonoperating revenues and (expenses)	611,851
Net income	357,115
Retained earnings, beginning of year	7,256
Retained earnings, end of year	$364,371

See accompanying notes to the financial statements

MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

Increase (Decrease) In Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash from State of Ohio	$547,236
Cash payments to suppliers for goods and services	(245,400)
Cash payments to employees for services and benefits	(368,483)
Other operating revenue	3,422
Net cash used for operating activities	(63,225)
Cash Flows from Noncapital Financing Activities	
Proceeds from loans	250,987
Proceeds from loans from employees	23,913
Federal and State Federal grants	318,045
Gifts and Donations	21,008
Net cash provided by noncapital financing activities	613,953
Cash Flows from Capital and Related Financing Activities	
Capital acquisitions	(475,195)
Principal paid on loans from employees	(22,000)
Principal paid on loans payable	(46,583)
Interest paid on loans payable	(9,389)
Net cash used by capital and related financing activities	(553,167)
Net Decrease in Cash	(2,439)
Cash and Cash Equivalents, Beginning of Year	2,439
Cash and Cash Equivalents, End of Year	0
Reconciliation Of Operating Loss to Net Cash Used for Operating Activities	
Operating loss	(254,736)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities	
Depreciation	126,821
(Increase) in prepaid expenses	(5,076)
Increase in cash overdraft payable	436
Increase in accrued wages payable	45,261
Increase in intergovernmental payable	18,014
Increase in compensated absences payable	6,055
Net Cash Used for Operating Activities	(63,225)

Noncash Capital and Related Financing Activities

Donated Capital assets	166,800
Capital Assets recognized through contracts payable	$86,884

See accompanying notes to the financial statements.

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1. DESCRIPTION OF THE 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, twelve full-time and part-time certified teaching personnel and two non-certified support personnel who provide services to an enrollment of 103 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 balance sheet. Equity (i.e., net total liabilities) is retained earnings. The operating statement presents 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Fixed assets and depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed 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 vehicles, furniture and fixtures, and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed 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 Charter School Grant 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 Disadvantage Public Impact Aid program, the Special Education Weighted revenue program and the Title II-A Program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same fiscal year. 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 the above named programs for the 2003 school year totaled $985,168.

H. Compensated absences

Upon retirement, payment is made for 25 percent of unused sick leave balance. The total obligation for the School at June 30, 2003 was $2,711.

The Superintendent of the School is the only year-round employee who earned vacation leave. The School's policy is that unused vacation leave may be carried over into the next year, with the maximum accumulation of vacation time being three years. The total obligation for the School at June 30, 2003 related to vacation leave was $3,344.

I. Accrued liabilities payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2003, including:

Wages payable – salary payments made after year-end that were for services rendered in fiscal year 2003. 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, 2003 for all salary payments made to teaching personnel during the months of July and August 2003.

Intergovernmental payable – payment for the employer's share of the retirement contribution associated with services rendered during fiscal year 2003 that were not paid until the subsequent fiscal year.

Contacts payable - payment for the portion of building renovation completed during fiscal year 2003, but not paid until the subsequent fiscal year.

J. Tax Exempt Status

The School has not filed for tax exempt status under section 501(c)(3) of the Internal Revenue Code, nor have they filed tax returns for fiscal year 2003. The School has made no provision for any potential future tax liability which could result from not obtaining the 501(c)(3) tax exempt status.

K. Exchange and Non Exchange Transactions

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

3. 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, 2003, the carrying amount of the School's deposits was $(436) and the bank balance was $9,890, the entire balance of which was covered by federal depository insurance. The negative carrying amount of the School's deposits was reclassified as a cash overdraft payable on the balance sheet at June 30, 2003.

4. INTERGOVERNMENTAL RECEIVABLES

All 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, 2003 consist of the following Federal and State grant programs:

Receivable	Amount
Start up Grant	$100,000
Title I	17,717
Title II-A	1,196
Title II-D	485
Title IV-A	380
Title V	109
Total Intergovernmental Receivables	$119,887

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003, follows:

Leasehold Improvements	$ 557,579
Furniture and Equipment	172,118
Subtotal	729,697
Less: Accumulated Depreciation	(127,322)
Net Fixed Assets	$ 602,375

6. LOANS PAYABLE

The following is a summary of the loan activity for the School for the year ended June 30, 2003:

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003
Farmers and Merchants Bank, 7.5%	$ -	$ 200,900	$(29,468)	$171,432
Bridge Loan, 0%	-	50,087	(17,115)	32,972
Total	$ -	$ 250,987	$(46,583)	$204,404

6. LOANS PAYABLE (Continued)

The loan from Farmers and Merchants bank was used to finance leasehold improvements and matures in October 2006.

The Bridge Loan represents a loan from a member of the School's management who was willing to loan money for operating expenses and to facilitate cash flow on a short-term basis.

Future principal and interest payments are as follows:

		Principal	Interest
	2004	$ 79,996	$ 11,263
	2005	50,673	7,612
	2006	54,607	3,678
	2007	19,128	300
Total		$ 204,404	$ 22,853

7. 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 2003, the School contracted with the Cincinnati Insurance Company for business personal property, as well as general liability and commercial umbrella coverage. Director and officer liability coverage is provided by National Union Fire Insurance Company and a Public Employees Faithful Performance Bond for the Treasurer is provided by Auto Owners Insurance Company.

Business personal property coverage carries a $500 deductible and has a $1 million limit on the building and $500,000 limit on the business contents. Director and officer liability coverage is set at $1 million with a $5,000 deductible. General liability coverage provides $1 million per occurrence and $2 million in the aggregate with no deductible. Umbrella liability coverage provides $2 million per occurrence, as well as, in the aggregate. In addition, the School is the insured party in the faithful performance bond for the Treasurer in the amount of $150,000.

B. 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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 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. 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, 2003 was $18,741; 64 percent has been contributed for the fiscal year ended June 30, 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, 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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent. Effective July 1, 2003, the member contribution rate increased to the statutory maximum of 10 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% 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, 2003 was $90,129; 88 percent has been contributed for fiscal year 2003.

9. POST-EMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care 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. Most 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, the cost of coverage paid from STRS 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 Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, 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 $2.8 billion on June 30, 2002. For the School, this amount equaled $6,438 during the 2003 fiscal year.

For the year ended June 30, 2003, net health care costs paid by STRS Ohio were $352,301,000. There were 108,294 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. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2003, the allocation rate is 5.83 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 2003, the minimum pay has been established at $14,500. For the School, the amount to fund health care benefits, including the surcharge, was $8,341 for fiscal year 2003.

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, 2003, were $204,930,737 and the target level was $307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits of $303.6 million. The number of benefit recipients currently receiving heath care benefits is approximately 50,000.

10. 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.

10. CONTINGENCIES (Continued)

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 review resulted in the discovery of an overpayment to the state in the amount of $596. Due to this amount being insignificant, it is not presented in the financial statements.

C. Litigation

1. 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 for oral argument on November 18, 2003. The effect of this suit, if any, on the School is not presently determinable.

2. The School is defendant in a lawsuit. Although the outcome of this suit is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the School's financial condition.

11. 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.

12. OPERATING LEASE

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 2003 totaled $80,837. The terms of the lease are not expected to change during fiscal year 2004.

13. OTHER PURCHASED SERVICES

During the year ended June 30, 2003, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$	54,725
Property services		25,970
Other		9,669
	$	90,364

14. BEGINNING BALANCE/RETAINED EARNINGS

The School received various revenues, including State and Federal start-up funds, of $209,530 and made various expenditures totaling $207,091 associated with starting operations prior to July 1, 2002. Included in the above noted transactions, $4,817 in capital purchases was capitalized resulting in beginning retained earnings of $7,256.

15. RELATED PARTIES

During the fiscal year, 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 $1,913, which is included in the School's accounts payable as of June 30, 2003.

Also, during the fiscal year, the Office Manager, Debbie Burchett, provided the School with a personal loan, bearing no interest, totaling $15,000. This loan was not supported by a formal loan agreement or approved by the Board. The entire loan amount was repaid during fiscal year 2003.

16. GIFTS AND DONATIONS

During the fiscal year the school received $21,008 in cash gifts and donations, and $162,301 in donated furniture and equipment.

MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education				
Grants to Local Educational Agencies (ESEA Title 1)	C1-S1-2003	84.010	$3,889	$3,889
Special Education Grants to States (IDEA part B)	6B-CM-03P	84.027	8,680	8,680
Drug Free Schools Grant	DR-S1-2003	84.186	84	84
Charter Start-Up Grant	CH-S1-2002	84.282	150,000	150,000
	CH-S1-2003P		150,000	150,000
Total Charter Start-Up Grant			300,000	300,000
Innovative Educational Program Strategies	C2-S1-2003	84.298	24	24
Technology Literacy Challenge Fund Grant	TJ-S1-2003	84.318	106	106
Title II-A Teacher Quality Enhancement	TR-S1-2003	84.367	263	263
Total Federal Assistance - Total Department of Education			**$313,046**	**$313,046**

The accompanying notes to this schedule are an integral part of this schedule.

MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the School contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School complied with these matching requirements. The expenditure of non-Federal matching funds in not included on the Schedule.

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Governance:

We have audited the financial statements of Moraine Community School, Montgomery County, (the School), as of and for the year ended June 30, 2003, and have issued our report thereon dated August 19, 2004, wherein we noted the School has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to such income tax. Because of this departure, net income and retained earnings are overstated and liabilities for accrued income taxes is understated by amounts which, while material, we are unable to determine. Except for the matter referred to in the preceding sentence, 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.

Compliance

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 grants, noncompliance with which could directly and materially affect 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 instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated August 19, 2004.

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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-004 through 2003-010.

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Internal Control Over Financial Reporting
(Continued)

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-004 through 2003-006, and 2003-008 through 2003-010 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the School's management in a separate letter dated August 19, 2004.

This report is intended for the information and use of the management, the Board of Governance, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

August 19, 2004

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Governance:

Compliance

We have audited the compliance of Moraine Community School, Montgomery County, (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, Moraine Community School, Montgomery County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 2003-011 through 2003-013. We also noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the School in a separate letter dated August 19, 2004.

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Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management, the Board of Governance, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

August 19, 2004

MORAINE COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Qualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(iii)	**Was there any reported material non-compliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	Yes
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Charter School Start-up Grant: CFDA # 84.282
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

FINDING NUMBER 2003-001

Ohio Rev. Code Section 149.43 states in part that "all public records shall be promptly prepared and made available for inspection to any member of the general public at all reasonable times during regular business hours." "Record" for purposes of the public records law, means any document, device, or item, regardless of physical form or characteristic, created, received by, or coming under the jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office. In addition, **Ohio Rev. Code Section 3314.03(A)(8)** requires all community schools to maintain financial records in the same manner as all public school districts in the State of Ohio. Further, **Ohio Rev. Code Section 149.351** states that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under **Ohio Rev. Code Sections 149.38 to 149.42**.

FINDING NUMBER 2003-001
(Continued)

Moraine Community School did not maintain financial records in a consistent manner, supporting documentation was not available for all disbursements of public funds, school records provided at the time of the audit were unorganized, and numerous records were not maintained in any chronological order. Further, the School was unable to provide the following items for the audit:

- Purchase orders could not be located for 64 of 128 or 50% of expenditures tested;
- Invoices could not be located for 33 of 128 or 26% of expenditures tested;
- Deposit slips could not be located for 2 of 21 or 9.5% of receipts tested;
- Proper supporting documentation could not be located for 11 of 21 or 52% of receipts tested;
- Quarterly Federal withholding form 941 could not be located for 2 of 4 quarters or 50% of forms tested;
- Quarterly State withholding form IT-501 could not be located for 1 of 4 quarters or 25% of forms tested;
- Timesheets could not be located for 3 of 11 or 27% of employees tested;
- Accounting records were not available from November 2003 to the present.

Failure to retain public records could result in the School's inability to detect errors or irregularities in the normal course of business.

The School should maintain all accounting records and supporting documents until they have been subjected to auditing procedures and only dispose of records in accordance with their record retention policies.

FINDING NUMBER 2003-002

Exhibit 2, Section 2.5 of the School's contract with the Ohio Department of Education requires all equipment, upon arrival be assigned a serial number which will be recorded on a completed purchase order upon delivery of the item to the appropriate department. This serial number, along with item description and location, will be added to an equipment register which will be updated annually.

This serial number, along with the item description and location, were not added to the equipment register and equipment items were not tagged with their assigned serial numbers. To assure the School is maintaining adequate safeguards over their fixed assets, and to reduce the risk that the School's fixed assets will be misstated, the School should establish an updated listing of all fixed assets owned and develop and implement appropriate procedures to maintain the fixed asset listing throughout the year. These procedures should include tagging all assets meeting the School's capitalization criteria when received, recording the fixed asset tag number in the fixed asset equipment register, and development of equipment addition and disposal forms to be completed by management when assets are acquired or disposed. Additionally, the equipment addition and disposal form should record such information as the equipment tag number, description, cost, acquisition date, and a reference identifier for supporting documentation such as an invoice.

FINDING NUMBER 2003-003

Ohio Admin. Code Section 117-2-03(B) states all community schools are required to prepare an annual financial report in accordance with generally accepted accounting principles (GAAP). The annual financial report is required to be filed with the Auditor of State within 150 days after the close of the fiscal year. The School failed to file an annual financial report within the time line prescribe by the above section of Ohio Admin. Code. Subsequently, the School's financial records were considered unauditable and a 90-day letter was issued by the Auditor of State.

The Governing Board should establish and implement policies and procedures to ensure that the annual financial report is filed in a timely manner as prescribed by the abovementioned section of Administrative Code.

FINDING NUMBER 2003-004

Governing Board Approval of Loans

Throughout fiscal year 2003, Moraine Community School received loans from various members of the School's management. The proceeds of the loans were to be used for School's operating expenses and to facilitate cash flow on a short term basis. The School received loans in the amounts of $15,000 and $8,913, from Debbie Burchett and Dan and Sue Fowler, respectively. Neither of these loans were approved by the Governing Board. Failure of the Governing Board to approve loans could result in the Board participating in a commitment to repay monies of which they do not want to be associated or for which they were unaware.

The Governing Board should formally approve all loans and have that approval documented in the Board minutes. Additionally, all loans should be in writing with the terms of the loans specifically stated.

FINDING NUMBER 2003-005

Development and Implementation of Purchasing Controls

The School should have a favorable control environment in place to support an adequate purchasing process. Additionally, to assist in preventing errors or misstatements from occurring and detecting errors which may have occurred, a favorable control environment for processing non-payroll disbursements may include, but are not limited to the following:

- Prior authorization of a purchase through the use of a purchase orders, which should be approved and documented by appropriate members of management and which should include appropriate coding for expenditures;
- Detailed review of the invoice and supporting documentation indicating descriptions of the goods and/or services received and documentation on the invoice that the goods and/or services were received; ("okay to pay")
- Matching of the invoice with a purchase order and copy of a check or check stub to ensure all supporting documentation has been reviewed and;
- Review of check used to pay the purchase and supporting documentation to ensure that the payee, amount, address, etc. on the check and invoice agree.

The following errors and control weaknesses were noted in the purchasing control environment:

- Purchase orders could not be located for 50% of the transactions tested. Of the purchase orders that were found, 44% were not signed by the Superintendent and 69% were not signed by the Treasurer;
- Invoices could not be located for 26% of the transactions tested;
- Invoices were not marked "okay to pay" indicating that the goods and/or services had been received in satisfactory condition for 64% of the transactions tested;

The School should develop and implement a policy and set of procedures to ensure that sufficient controls are in place to support the purchasing process. The policy should discuss the use of purchase orders, review of invoice for payments, and periodic scanning of documents to detect errors or discrepancies. Additionally, the School should ensure that appropriate documentation is maintained to support all expenditures made.

FINDING NUMBER 2003-006

Cash Management Deficiencies

As of June 30, 2003, the School had a negative cash book balance of ($436). A negative book balance is caused by improper monitoring of revenues and expenditures and indicates that the School expended money that was not available. Monitoring controls can help to assist in the cash management function and can include:

- Regular review of budget and actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- Review of revenues and expenditures with independently accumulated information (budgets, past performance, etc.) and;
- Review of monthly bank reconciliations.

The School should develop and implement a monitoring control system over cash management to ensure that material misstatements do no occur and that liabilities will not be incurred that the School cannot meet. Additionally, the Governing Board should request to review bank reconciliations at each monthly meeting.

FINDING NUMBER 2003-007

Remittance to Tax Sheltered Annuity Plan

The School gave their employees the option to contribute a set amount each pay to a 403(b) Tax Sheltered Annuity Plan offered through MetLife. The MetLife Salary Reduction Agreement for Debbie Burchett stated she was to have $50 deducted from each pay check and have it subsequently contributed to her 403(b) account with MetLife. From May 30, 2003 to January 16, 2004, a total of $900 was withheld from Ms. Burchett's wages. As of July 6, 2004, based on confirmation from MetLife, Ms. Burchett's total contributions were only $350.

The School failed to remit 403(b) amounts to MetLife totaling $550 which was withheld from Debbie Burchett's wages for the period of May 30, 2003 through January 16, 2004.

The School should remit the $550 withheld from Ms. Burchett's wages to her MetLife 403(b) Tax Sheltered Annuity Plan. Additionally, to ensure proper accountability of all withholdings the School should remit, to the appropriate parties, timely and properly.

FINDING NUMBER 2003-008

Maintaining Supporting Documentation and Use of Duplicate Receipts

The School should maintain duplicate receipts for all monies received. The duplicate receipt should include information such as the source of the funds, the date the monies were received, the appropriate revenue account coding, a description of the monies received, a signature of the individual receiving the funds, and the amount of the funds received. In addition, copies of all supporting documentation including copies of the checks, remittance advices, supporting schedules, validated deposit slips, etc. should be maintained in an orderly manner which can be efficiently agreed to the adequate supporting documentation.

FINDING NUMBER 2003-008
(Continued)

The School did not utilize duplicate receipts for any monies receipted during fiscal year 2003. Additionally, the School was unable to provide adequate supporting documentation for 52% of the donation receipts tested. Further, receipt records were maintained in an order in which they could not be efficiently reviewed. Failure to maintain duplicate receipts, and adequate supporting documentation could result in monies not being appropriately posted to the revenue ledger or deposited to the School's account.

The School should develop and implement policies and procedures so that duplicate receipts are issued for all monies received and adequate supporting documentation is maintained in an organized manner to support all deposits to the School's accounts and postings to the School's revenue ledger.

FINDING NUMBER 2003-009

Former Superintendent - Loans, Severance, Unpaid Salary, and Miscellaneous Purchases

In reviewing the payments made to Sue Fowler, former Superintendent of the School, for bridge and personal loans (made to the School), miscellaneous purchases, and salary payments, we noted an overpayment to Ms. Fowler in the amount of $20,575. The overpayment was caused due to the School making various payments to Ms. Fowler without proper supporting documentation and approval of the board. However, due to Ms. Fowler's entitlement of severance and unpaid salary, which includes, sick leave, vacation leave, STRS pickup, unpaid salary, and sick leave bonus, the overpayment amount is offset, amounting to a net overpayment of $15.

The following table is an analysis of loan and miscellaneous purchases received by the School from Ms. Fowler. Additionally, the table includes payments made by the School to Ms. Fowler. Further, the table includes severance and unpaid salary amounts due Ms. Fowler and the net overpayment made by the School:

Loans and Miscellaneous Purchases received by the School from Sue Fowler		
Bridge Loan	$50,087	
Personal Loan	8,913	
Miscellaneous purchases	18,365	
Total Loans and Miscellaneous Purchases		$77,365
Payments Made to Sue Fowler		
Amount paid to Sue Fowler for loans and Miscellaneous Purchases from March 17, 2003 to October 3, 2003	$93,695	
Salary overpayment for the pay ending August 28, 2003	4,245	
Total amount paid to Sue Fowler		$97,940
Overpayment		($20,575)

FINDING NUMBER 2003-009
(Continued)

Severance Pay and Unpaid Salary		
Unpaid Salary	$8,673	
STRS Employee/Employer share pick	2,082	
Unused Vacation Pay	5,771	
Unused Sick Leave Pay	2,515	
Bonus Sick Leave Pay	1,519	
Total Severance Pay and Unpaid Salary due to Sue Fowler		$20,560
Total Overpayment		($15)

The Governing Board did not approve the $8,913 personal loan from Ms. Fowler. Additionally, the Governing Board did not approve the $18,365 in miscellaneous purchases for reimbursement. Further, no support documentation was maintained at the School on either the personal loan or the miscellaneous purchases. Finally, the School never approved Ms. Fowler's severance and unpaid salary amounts.

The Governing Board should establish and implement policies and procedures to require that all loans and reimbursements be approved by the Board. Additionally, all expenditures of the School should be documented by invoices or other supporting documentation and kept on file at the School. Further, the Governing Board should approve all severance and unpaid salary amounts.

FINDING NUMBER 2003-010

Tax Exempt Status

The School has not applied for tax exempt status with the Internal Revenue Service (IRS). Without approval of the tax exempt status, the net income consequently is subject to taxation by the IRS. Further, the School has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the School establish provisions for federal and local and accrued taxes. We also recommend the School consult with a qualified tax professional to determine the necessary fax filings and file the appropriate tax forms with the IRS.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-011
CFDA Title and Number	84.282
Federal Award Number / Year	2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

OMB Circular A-133, Subpart C, Section 300 (b), requires local governments receiving federal financial assistance to maintain internal controls over Federal programs to provide reasonable assurance that the awards are managed in compliance with laws, regulations, and the provisions of contracts or grant agreements to prevent a material effect on each of its Federal programs. The School failed to implement internal controls over their Federal programs. The following deficiencies were identified during testing:

- Supporting documentation for allowable activities and expenditures were not reviewed and approved by the Superintendent for all transactions;
- Adequate segregation of duties and review for authorization of activities and costs was not established by the Board of Trustees and management and;
- Adequate procedures were not implemented to provide for the timely reporting of cash management and activities to the Ohio Department of Education (grantor agency).

These deficiencies were identified throughout testing of the School's internal controls over all aspects of financial accountability and reporting. Testing indicated that this is a systematic problem. The School should implement the following procedures over the internal control of Federal programs:

- Supporting documentation for all transactions should be maintained and reviewed and approved by individuals knowledgeable of program requirements to include allowable activities and expenditures;
- Adequate segregation of duties should be established in the review and authorization of transactions. A common practice is for the Superintendent and Treasurer to review and approve all transactions or to appoint a grant coordinator that approves transactions along with the Treasurer and;
- Procedures over the timely reporting of cash management and activities should be established. A common practice is to maintain a grants binder or folder for each federal award with a calendar or time table that identifies reporting deadlines.

Implementing the abovementioned internal controls will reduce the risk of fraud or financial distress in Federal programs.

Finding Number	2003-012
CFDA Title and Number	All CFDA Titles and Numbers
Federal Award Number / Year	2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

OMB Circular A-133, Subpart C, §.300, requires local governments receiving federal financial assistance to identify, in their accounting records, all federal funds received and expended and the programs under which they were received. The School failed to identify federal expenditures in their accounting system so that they could be reconciled to the programs under which they were disbursed.

To identify these transactions in a more timely and complete fashion, the School should assign each federal grant as a separate fund and each federal grant project year a separate special cost center. This will specifically identify federal receipts and expenditures that can be reconciled to the programs under which they were received. The School should also coordinate this effort with the individual grant coordinators responsible for accounting for federal grant monies.

Finding Number	2003-013
CFDA Title and Number	84.282
Federal Award Number / Year	2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Final Expenditure Report and Activities Report

The Ohio Public Charter School Program *Request for Applications Start-Up and Implementation Grant Federal Fiscal Year 2002-03* requires the School to submit a Final Expenditure Report to the Office of Grants Management within 60 days of expending all funds for the award period or within 60 days of the end of the federal fiscal year (November 30th); whichever comes first.

Additionally, an Activities Report describing how grant funds were spent in support of the objectives of the Public Charter Schools Program is due to the Office of Community Schools within 60 days of expending the funds or within 60 days of the end of the federal fiscal year.

The School did not submit either of the two required reports. Failure to submit these reports could cause the School to lose funding or be in violation of Public Charter School Program. To comply with the Ohio Public Charter School Program the School should submit these reports within the required time period.

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 30, 2004