



**Auditor of State
Betty Montgomery**

MEADOWS CHOICE COMMUNITY SCHOOL

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Meadows CHOICE Community School
Lucas County
Shuer Center
4955 Seaman Road
Oregon, Ohio 43616-2515

To the Governing Board:

We have audited the Balance Sheet of Meadows CHOICE Community School, Lucas County (Meadows) as of June 30, 2002 and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2002. These financial statements are the responsibility of Meadows' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meadows as of June 30, 2002, and the results of operations and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming Meadows will continue as a going concern. As shown in the financial statements, Meadows has incurred an operating loss in the amount of \$171,997 for the year ended June 30, 2002, has a working capital deficiency of \$125,340 as of June 30, 2002 and an accumulated deficit of \$104,768. Accordingly, there is substantial doubt about Meadows' ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2003 on our consideration of Meadows' 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.

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

Betty Montgomery
Auditor of State

February 21, 2003

MEADOWS CHOICE COMMUNITY SCHOOL

BALANCE SHEET
AS OF JUNE 30, 2002

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$15,046
Intergovernmental Receivables	18,521
Prepaid Items	788
	<hr/>
Total Current Assets	34,355

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	21,091
	<hr/>
Total Assets	\$55,446

Liabilities and Equity

Current Liabilities

Accounts Payable	\$73,524
Accrued Wages	60,747
Intergovernmental Payable	12,463
Judgment Payable	11,000
Capital Leases Payable	1,961
	<hr/>
Total Current Liabilities	159,695

Long-Term Liabilities

Capital Leases Payable	519
	<hr/>
Total Liabilities	160,214

Equity

Accumulated Deficit	(104,768)
	<hr/>
Total Liabilities and Equity	\$55,446

The notes to the financial statements are an integral part of this statement.

MEADOWS CHOICE COMMUNITY SCHOOL

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2002

Operating Revenues

Foundation Payments	\$267,512
Special Education Payments	359,643
Other Operating Revenues	<u>3,557</u>
Total Operating Revenues	<u>630,712</u>

Operating Expenses

Salaries	372,081
Fringe Benefits	126,374
Purchased Services	271,990
Materials and Supplies	6,233
Depreciation	12,593
Judgment	11,000
Other Operating Expenses	<u>2,438</u>
Total Operating Expenses	<u>802,709</u>
Operating (Loss)	<u>(171,997)</u>

Non-Operating Revenues (Expenses)

Grants - State	73,863
Grants - Federal	110,548
Contributions and Donations	10,217
Interest Earnings	466
Interest and Fiscal Charges	<u>(640)</u>
Total Non-Operating Revenues (Expenses)	<u>194,454</u>
Net Income	22,457
Accumulated Deficit at Beginning of Year	<u>(127,225)</u>
Accumulated Deficit at End of Year	<u><u>(\$104,768)</u></u>

The notes to the financial statements are an integral part of this statement.

MEADOWS CHOICE COMMUNITY SCHOOL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State Foundation	\$267,512
Cash Received from Special Education Payments	359,643
Cash Received from Other Operating Sources	3,557
Cash Payments to Suppliers for Goods and Services	(318,859)
Cash Payments to Employees for Services	(369,120)
Cash Payments for Employee Benefits	(115,900)
Cash Payments for Other Operating Uses	<u>(4,452)</u>
Net Cash Used for Operating Activities	<u>(177,619)</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received - State	73,863
Operating Grants Received - Federal	97,205
Contributions and Donations	<u>10,217</u>
Net Cash Provided by Noncapital Financing Activities	<u>181,285</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(366)
Principal Payments	(1,789)
Interest Payments	<u>(640)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(2,795)</u>

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>466</u>
Net Cash Provided by Investing Activities	<u>466</u>
Net Increase in Cash and Cash Equivalents	1,337
Cash and Cash Equivalents at the Beginning of the Year	<u>13,709</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$15,046</u></u>

(Continued)

MEADOWS CHOICE COMMUNITY SCHOOL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

**Reconciliation of Operating Loss to
Net Cash Used for Operating Activities**

Operating Loss (\$171,997)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation	12,593
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivables	(698)
(Increase) in Prepaid Items	(586)
(Decrease) in Accounts Payable	(42,064)
Increase in Accrued Wages Payable	11,262
Increase in Judgment Payable	11,000
Increase in Intergovernmental Payable	<u>2,871</u>
Total Adjustments	<u>(5,622)</u>
Net Cash Used for Operating Activities	<u><u>(\$177,619)</u></u>

The notes to the financial statements are an integral part of this statement.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Meadows CHOICE (Center for Habilitation Options Insuring Children's Education) Community School (Meadows), formerly known as "Vail Meadows CHOICE Community School," is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Meadows is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect Meadows' tax-exempt status. Meadows' objective is to provide an innovative, holistic approach to life-skill development through education, medical interface, clinical therapy, and collaboration with the community's stakeholders, to youths ages 11 through 14, with multi-handicapped, behavioral problems, developmental disorders and/or learning disabilities. Meadows, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. Meadows may acquire facilities as needed and contract for any services necessary for the operation of the school.

Meadows was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years ending June 30, 2005. The Sponsor is responsible for evaluating the performance of Meadows and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of Meadows (see note 14).

Meadows operates under the direction of a four-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls Meadows' one instructional/support facility staffed by 11 non-certified and 7 certificated teaching personnel which includes 1 administrator, 6 teachers who provide services to 41 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Meadows have been prepared in conformity with generally accepted accounting principles 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. Meadows also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of Meadows' accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a 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 is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this

MEADOWS CHOICE COMMUNITY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., 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 used 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 Revised Code Chapter 5705, unless specifically provided in Meadows' contract with its Sponsor. The contract between Meadows and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by Meadows are accounted for by Meadows' fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in Meadows' name. Monies for Meadows is maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less, at the time they are purchased by Meadows, are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. Meadows does not possess 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 an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

F. Intergovernmental Revenues

Meadows currently participates in the State Foundation Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Meadows must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to Meadows on a reimbursement basis.

Amounts awarded under the above named programs for the 2002 school year totaled \$627,115.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. ACCOUNTABILITY AND COMPLIANCE

Accumulated Deficit and Operating Loss

Meadows is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating losses. See Note 16.

4. DEPOSITS

At June 30, 2002, the carrying amount of Meadows' deposits was \$15,046 and the bank balance was \$16,733. The bank balance was covered by federal depository insurance.

5 RECEIVABLES

Receivables at June 30, 2002 consisted of intergovernmental (e.g., federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

6. FIXED ASSETS

A summary of Meadows' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$61,750
Less: Accumulated Depreciation	<u>(40,659)</u>
Net Fixed Assets	<u><u>\$21,091</u></u>

7. RISK MANAGEMENT

A. Property and Liability

Meadows is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, Meadows contracted with Nationwide Insurance Company for property and general liability insurance. Settled claims have not exceeded this commercial coverage in the past three years.

MEADOWS CHOICE COMMUNITY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

(Continued)

Professional liability is protected by Nationwide Insurance Company with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

B. Workers' Compensation

Meadows pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental, Vision, Prescription, and Life Benefits

Meadows has contracted through the Lucas County Educational Service Center to provide employee medical, dental, and vision insurance to its employees. The School pays the full amount of the monthly premiums for all selected coverage (medical, dental and/or vision).

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Meadows contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Board, Suite 100, Columbus, Ohio 43215-3726.

Plan members are required to contribute 9 percent of their annual covered salary and Meadows is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for the fiscal year 2001 (the latest information available). For fiscal year 2000, 5.5 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. Meadows' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$8,146, \$7,030, and \$7,868, respective; 78.94 percent has been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 in the amount of \$4,399 is recorded as a liability.

B. State Teachers Retirement System

Meadows contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Plan members are required to contribute 9.3 percent of their annual covered salary and Meadows is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2001 (the latest information available). For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Meadows' required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$20,827, \$14,589, and \$8,811, respectively; 87.06 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 in the amount of \$3,985 is recorded as a liability.

9. POSTEMPLOYMENT BENEFITS

Meadows provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. 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. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Meadows, this amount equaled \$9,897 during the year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

For SERS, 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.

For the fiscal year ended June 30, 2001 employer contributions to fund health care benefits were 8.54 percent of covered payroll, an increase of .04 percent from fiscal year 2000. 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 2001, the minimum pay has been established at \$12,400. For Meadows, the amount to fund health care benefits, including surcharge, equaled \$13,662 for fiscal year 2002

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, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

10. 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

11. CONTINGENCIES AND COMMITMENTS

A. Grants

Meadows received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Meadows at June 30, 2002

B. Ohio Community School Program

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. The effect of this suit, if any, on Meadows is not presently determinable.

C. School Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (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 conclusion of this review resulted in an increase in an amount that will not be material to the financial statements.

D. Judgment

On May 15, 2002 a settlement agreement and mutual release was entered into by and between Vail Meadows Therapeutic Riding Center (Vail) and Meadows CHOICE Community School (Meadows CHOICE) whereby the sum of \$12,000 is to be paid by Meadows CHOICE to Vail. The sum of \$1,000 shall be paid on or before June 1, 2002. The sum of \$1,100 shall be paid on or before September 1, 2002 and each month thereafter. The final payment of \$1,100 shall be made on or before June 1, 2003. No payments are due July 1, 2002 or August 1, 2002. Meadows CHOICE will provide Vail with a Consent Judgment Entry executed by Meadows CHOICE confessing to judgment in the amount of fifty thousand and no dollars. Vail's attorney will hold the consent judgment entry in trust and will not file it or release it so long as Meadows CHOICE makes payments described above in a timely fashion. If, however Meadows CHOICE fails to make one or more payments by a date that is 90 days later than the due date for that payment as described above, Vail may re-file the lawsuit and the consent judgment entry and thereafter take any legal steps to collect the total sum of fifty thousand and no dollars less any payments already made by

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Meadows CHOICE. As of June 30, 2002, Meadows CHOICE had paid \$1,000 of the settlement agreement to Vail. Balance owed at June 30, 2002 was \$11,000.

12. CAPITALIZED LEASE

During fiscal year 1999, Meadows entered into a capitalized lease for a copier. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date. Payments made totaled \$2,108 for the fiscal year.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002.

<u>Fiscal Year Ending June 30,</u>	<u>Facility Rental</u>
2003	\$2,108
2004	<u>527</u>
Total minimum lease payments	\$2,635
Less: amount representing interest	<u>(155)</u>
Present value of minimum lease payments	<u><u>\$2,480</u></u>

13. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2002 purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES

Professional and Technical Service	\$91,087
Property Service	176,706
Meeting Expenses	244
Communication	<u>3,953</u>
Total Purchased Services	<u><u>\$271,990</u></u>

14. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Meadows CHOICE Community School. As part of this agreement, Meadows shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to Meadows from the State of Ohio. Meadows paid the Lucas County Educational Service Center \$3,147 for fiscal agent fees in fiscal year 2002. \$2,933 of fiscal agent fees remained payable as of June 30, 2002.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of Meadows:

- A. Maintain custody of all funds received by Meadows in segregated accounts separate from the Sponsor's or any other Community School's funds;

MEADOWS CHOICE COMMUNITY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

(Continued)

- B. Maintain all books and accounts of all funds of Meadows;
- C. Maintain all financial records of all state funds of Meadows and follow State Auditor procedures for receiving and expending state funds;
- D. Assist Meadows in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of Meadows in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- F. Pay obligations incurred by Meadows within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of Meadows so long as the proposed expenditure is within the approved budget and funds are available.

15. OPERATING LEASE

Meadows has entered into an operating lease, for the period August 1, 2001 through July 31, 2002, with Lucas County Educational Service Center, to lease classroom space to house Meadows CHOICE Community School, in the amount of \$7,000 per month. Meadows and the Lucas County Educational Service Center have renewed the lease through July 31, 2003 in the amount of \$6,000 per month. \$7,000 of rent payments remained payable as of June 30, 2002.

16. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT (SEE NOTE 3)

Meadows accumulated a deficit of \$104,768 for the year ended June 30, 2002, and had an operating loss of \$171,997. Meadows is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating loss. Management plans to eliminate the deficit and operating losses with the following actions:

- A. Two teaching positions have been eliminated.
- B. Meadows employees are now contributing 15% of the cost of their health insurance.
- C. Meadows has entered into an agreement with the Lucas County Educational Service Center to reduce the cost of pupil transportation by \$4,000 per month effective September 2002.
- D. Meadows has renegotiated its lease of classroom facilities with the Lucas County Educational Service Center to reduce the monthly rental cost \$7,000 to \$6,000 a month effective August 2002.
- E. Meadows has increased its 2003 enrollment to 60 students from 40 students in fiscal year 2002.
- F. Meadows plans to closely monitor purchases.
- G. Meadows plans to more effectively utilize volunteers.

17. SUBSEQUENT EVENT

On October 31, 2002, Meadows entered into an agreement with the former Administrator who resigned October 1, 2002 to pay him \$10,000. The \$10,000 will be paid in \$2,000 monthly increments for five months starting in November 2002.



**Auditor of State
Betty Montgomery**

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

Meadows CHOICE Community School
Lucas County
Shuer Center
4955 Seaman Road
Oregon, Ohio 43616-2515

To the Governing Board:

We have audited the financial statements of Meadows CHOICE Community School, Lucas County (Meadows) for the fiscal year ended June 30, 2002, and have issued our report thereon dated February 21, 2003. Our report expressed substantial doubt as to the ability of Meadows to continue as a going concern. 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 Meadows' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. We also noted a certain immaterial instance of noncompliance that we have reported to the management of Meadows in a separate letter dated February 21, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Meadows' 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving

the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Meadows in a separate letter dated February 21, 2003.

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

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

Betty Montgomery
Auditor of State

February 21, 2003



**Auditor of State
Betty Montgomery**

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MEADOWS CHOICE COMMUNITY SCHOOL

LUCAS 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
APRIL 1, 2003**