



**Auditor of State  
Betty Montgomery**



MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report .....	1
Balance Sheet - As of June 30, 2003.....	3
Statement of Revenues, Expenses, and Changes in Accumulated Deficit – For the Year Ended June 30, 2003 .....	4
Statement of Cash Flows - For the Year Ended June 30, 2003.....	5
Notes to the Financial Statements .....	7
Independent Accountant's Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	17
Schedule of Findings.....	19

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Meadows CHOICE Community School  
Lucas County  
1853 South Avenue  
Toledo, Ohio 43609-2054

To the Governing Board:

We have audited the Balance Sheet of Meadows CHOICE Community School, Lucas County, (Meadows) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2003. 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2004, 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".

**Betty D. Montgomery**  
Auditor of State

February 10, 2004

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**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2003**

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**Assets**

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$ 37,391
Intergovernmental Receivables	8,539
Prepaid Items	<u>5,900</u>
Total Current Assets	51,830

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>8,248</u>
Total Assets	<u><u>\$ 60,078</u></u>

**Liabilities and Equity**

Current Liabilities

Accounts Payable	\$ 1,769
Accrued Wages	53,986
Intergovernmental Payable	12,282
Capital Leases Payable	<u>519</u>
Total Liabilities	<u>68,556</u>

Equity

Accumulated Deficit	<u>(8,478)</u>
Total Liabilities and Equity	<u><u>\$ 60,078</u></u>

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

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEAR ENDED JUNE 30, 2003**

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**Operating Revenues**

Foundation Payments	\$ 290,915
Special Education Payments	363,829
Other Operating Revenues	<u>4,549</u>
Total Operating Revenues	<u>659,293</u>

**Operating Expenses**

Salaries	319,156
Fringe Benefits	101,362
Purchased Services	238,710
Materials and Supplies	9,343
Depreciation	11,842
Other Operating Expenses	<u>2,403</u>
Total Operating Expenses	<u>682,816</u>
Operating Loss	<u>(23,523)</u>

**Non-Operating Revenues (Expenses)**

Grants - State	70,044
Grants - Federal	49,581
Contributions and Donations	234
Interest Earnings	101
Interest and Fiscal Charges	<u>(147)</u>
Total Non-Operating Revenues (Expenses)	<u>119,813</u>
Net Income	96,290
Accumulated Deficit at Beginning of Year	<u>(104,768)</u>
Accumulated Deficit at End of Year	<u><u>\$ (8,478)</u></u>

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



**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

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

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**Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities

Cash Received from State Foundation	\$ 282,471
Cash Received from Special Education Payments	363,829
Cash Received from Other Operating Sources	4,549
Cash Payments to Suppliers for Goods and Services	(327,477)
Cash Payments to Employees for Services	(321,045)
Cash Payments for Employee Benefits	(103,948)
Cash Payments for Other Operating Uses	(12,615)

Net Cash Used for Operating Activities (114,236)

Cash Flows from Noncapital Financing Activities

Operating Grants Received - State	70,044
Operating Grants Received - Federal	67,309
Contributions and Donations	4,673

Net Cash Provided by Noncapital Financing Activities 142,026

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(3,438)
Principal Payments	(1,961)
Interest Payments	(147)

Net Cash Used for Capital and Related Financing Activities (5,546)

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>101</u>
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Net Cash Provided by Investing Activities 101

Net Increase in Cash and Cash Equivalents 22,345

Cash and Cash Equivalents at the Beginning of the Year 15,046

Cash and Cash Equivalents at the End of the Year \$ 37,391

(Continued)

MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY

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

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

Operating Loss	<u>\$ (23,523)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	11,842
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(7,746)
(Increase) in Prepaid Items	(5,112)
(Decrease) in Accounts Payable	(71,755)
(Decrease) in Accrued Wages Payable	(6,761)
(Decrease) in Judgment Payable	(11,000)
(Decrease) in Intergovernmental Payable	<u>(181)</u>
Total Adjustments	<u>(90,713)</u>
Net Cash Used for Operating Activities	<u><u>\$ (114,236)</u></u>

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

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

**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 commencing July 24, 1998. 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 five-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 9 non-certified and 5 certificated teaching personnel which includes 1 administrator, 4 teachers who provide services to 57 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.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**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 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.

During fiscal year 2003, investments were limited to a business sweep account (repurchase agreement). The Business Sweep account is reported at cost.

**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 and leasehold improvements is computed using the straight-line method over an estimated useful life of five years.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**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 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 2003 school year totaled \$774,369.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 17.

**4. DEPOSITS**

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

At June 30, 2003, the carrying amount of the Meadows' deposits was \$20,020 and the bank balance was \$33,663. The bank balance was covered by federal depository insurance.

Meadow's investments are categorized to give an indication of the level of risk assumed by Meadows at fiscal year end. Category 1 includes investments insured or registered for which securities are held by Meadows or its agent in Meadow's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in Meadow's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in Meadow's name. Meadow's investments

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

totaling \$17,371 (reported amount and fair value), which are maintained in a Business Sweep Account (repurchase agreement), which are included in Category 2.

**5. RECEIVABLES**

Receivables at June 30, 2003, consisted of intergovernmental (e.g. grants) receivables which are considered collectible in full due to the current year guarantee of federal funds.

**6. FIXED ASSETS**

A summary of Meadows' fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$ 60,749
Less: Accumulated Depreciation	<u>(52,501)</u>
Net Fixed Assets	<u><u>\$ 8,248</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 2003, Meadows was uninsured.

**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 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 (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and Meadows is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of Meadows' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. Meadows' required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$12,452, \$8,146 and \$7,030 respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

**B. State Teachers Retirement System**

Meadows 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. Meadows was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

Meadows' required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$ 21,922, \$ 20,827, and \$ 14,589, respectively; 86 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

**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.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost 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 June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For Meadows, this amount equaled \$1,686 for fiscal year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 Meadows, the amount to fund health care benefits, including surcharge, equaled \$11,623 for fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**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 decision is unconstitutional.



**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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 its future State funding and on 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, 2003.

**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. 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 18th, 2003. The effect of this suit, if any, on the Meadows CHOICE Community School 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. For the fiscal year ended June 30, 2003, the results of this review resulted in no adjustment.

**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, 2003.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

<u>Fiscal Year Ending June 30,</u>		
2004	\$	527
Less: amount representing interest		(8)
Present value of minimum lease payments	<u>\$</u>	<u>519</u>

**13. PURCHASED SERVICE EXPENSES**

For the period ended June 30, 2003 purchased service expenses were payments for services rendered, as follows:

<b>PURCHASED SERVICES</b>		
Professional and Technical Service	\$	3,514
Property Service		221,613
Travel Mileage/Meeting Expenses		8,420
Communication		5,163
Total Purchased Services	<u>\$</u>	<u>238,710</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. The amount paid to Fiscal Agent for fiscal year 2003 totaled \$5,649 which was paid in full during the year.

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;
- 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.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**15. OPERATING LEASE**

Meadows has entered into an operating lease, for the period August 1, 2002 through July 31, 2003, with Lucas County Educational Service Center, to lease classroom space to house Meadows CHOICE Community School, in the amount of \$6,000 per month. Rent payments in the amount of \$73,000 were made in fiscal year 2003.

**16. SUBSEQUENT EVENTS**

On August 1, 2003 Meadows entered into an operating lease, for the period of August 1, 2003 through July 31, 2004, with the Bethel Lutheran Church, to lease space to house Meadows CHOICE Community School, in the amount of \$5,650 per month. A security deposit in the amount of \$9,650 is held by the lessor. The contract will be negotiated on a yearly basis.

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

Meadows accumulated a deficit of \$8,478 for the year ended June 30, 2003, and had an operating loss of \$23,523. 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. Meadows has renegotiated its lease of classroom facilities with the Lucas County Educational Service Center to reduce the monthly rental cost \$6,000 to \$5,650 a month effective August 2003.
- B. Meadows has increased its 2004 enrollment to 62 students from 57 students in fiscal year 2003.

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**Auditor of State  
Betty Montgomery**

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

Meadows CHOICE Community School  
Lucas County  
1853 South Avenue  
Toledo, Ohio 43609-2054

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, 2003, and have issued our report thereon dated February 10, 2004. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

**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 10, 2004.

Meadows CHOICE Community School  
Lucas County  
Independent Accountants' Report on Compliance and on Internal  
Control Required by *Government Auditing Standards*  
Page 2

This report is intended for the information and use of management, the governing board, and 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 10, 2004

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

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

**FINDING NUMBER 2003-001**

**Federal Grant Accounting and Reporting Citation**

Ohio Department of Education Federal Fiscal Report Procedures requires that a final expenditure report (FER) be filed. Failure to submit a FER in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed. Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported.

The School reported liquidated Federal monies that were unable to be traced to the authorized project fund, function and special cost center in the School's accounting system. Support for the expenditures was verified only after significant reconstruction of the current records into the accounting system.

We recommend: 1) that project expenditures for Federal monies be posted to the authorized account codes; 2) the FER be filled out using the appropriately posted amounts from the School's accounting system; and 3) only expenditures with adequate detailed support be liquidated and posted to the accounting system.

**FINDING NUMBER 2003-002**

Ohio Revised Code § 3314.03(11)(b) states the governing authority of each community school is required to purchase liability insurance, or otherwise provide for the potential liability of the school. Article 2, Section ag of the Sponsorship Agreement with the Lucas County Educational Service Center, further states "general liability insurance at all times will be maintained by the School Governing Authority in amounts not less than one million dollars per occurrence and five million dollars in the aggregate. The insurance coverage shall be not only for the school and School Governing Authority and its employees but also for the Sponsor, it's Board, Superintendent and employees as additional insureds."

Meadows CHOICE did not carry liability insurance during fiscal year ended June 30, 2003. As of July 18, 2003 the School did obtain liability insurance.

We recommend Meadows CHOICE Community School review their insurance needs annually and maintain liability insurance as required by the Ohio Revised Code and the School's Charter.

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**Auditor of State  
Betty Montgomery**

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800-282-0370

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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  
MARCH 9, 2004**