



**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Meadows CHOICE Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 respective financial position of Meadows CHOICE Community School, Lucas County, Ohio, as of June 30, 2007, and the respective changes in financial position and cash flows, thereof 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 March 7, 2008, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

March 7, 2008

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Meadows CHOICE Community School's (the School) financial performance provides an overall review of the Schools' financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Schools' financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- Total Assets were \$181,644.
- Total Liabilities were \$177,520.
- Total Change in Net Assets was \$(62,751).

Using this Annual Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Reporting the School as a Whole

One of the most important questions asked about the School is, "As a whole, what is the School's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School's financial statements, report information on the School as whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the School.

The Statement of Net Assets and the Statement of Activities report the activities for the School, which encompass all the School's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 1 provides a summary of the Schools' net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1
Net Assets

	2007	2006
Assets		
Current Assets	\$ 111,156	\$ 177,986
Security Deposits	4,000	4,000
Capital Assets, Net	66,488	40,671
<i>Total Assets</i>	181,644	222,657
Liabilities		
Current Liabilities	144,174	141,503
Non-Current Liabilities	33,346	14,279
<i>Total Liabilities</i>	177,520	155,782
Net Assets		
Invested in Capital Assets	33,142	26,392
Restricted Net Assets	28,846	14,303
Unrestricted	(57,864)	26,180
<i>Total Net Assets</i>	\$ 4,124	\$ 66,875

Total assets decreased \$41,013 which represents an 18.42 percent decrease from fiscal year 2006. Cash and cash equivalents decreased by \$12,791 due to increase in spending in personnel and purchased services. Intergovernmental Receivables decreased by \$61,162 mainly due to a decrease in the receivable related to the final FTE review. Capital Assets, net of depreciation increased by \$25,817 and total Liabilities increased by \$21,738 from fiscal year 2006 as a result of new leases capitalized in 2007.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for the fiscal year ended 2007. For comparison purposes, data from the June 30, 2006, year-end is reported to the right of the current year's figures.

Foundation Basic Aid	\$ 834,567	\$ 716,007
Special Education	226,494	269,404
Other	4,445	5,897
Non-Operating Revenues:		
Federal Grants	207,128	196,336
State Grants	11,909	7,450
Interest	1,814	1,770
Donations		5,500
Total Revenues	<u>1,286,357</u>	<u>1,202,364</u>
Expenses		
Operating Expenses:		
Salaries	690,636	590,436
Fringe Benefits	191,367	185,954
Purchased Services	390,105	413,408
Materials and Supplies	35,253	56,324
Depreciation	26,572	13,405
Other Expenses	11,515	10,235
Non-Operating Expenses:		
Loss on Disposal of Asset	325	
Interest and Fiscal Charges	3,335	1,853
Total Expenses	<u>1,349,108</u>	<u>1,271,615</u>
Decrease in Net Assets	<u>\$ (62,751)</u>	<u>\$ (69,251)</u>

State Foundation Basic Aid and Special Education, as a whole, are the primary support for the School, representing 99.58 percent of the operating revenue. Salaries and Fringe Benefits comprise 65.55 percent of operating expenses.

The School had total revenues of \$1,286,357, and total expenses of \$1,349,108. The change in net assets for the year was a decrease of \$62,751. This decrease is due to increase spending in personnel services during fiscal year 2007.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2007 the School had \$66,488, invested in furniture, fixtures, and equipment and capital leases (net of \$102,696 in depreciation). Table 3 shows fiscal year 2007 and fiscal year 2006:

Table 3
Capital Asset at June 30, 2007
(Net of Depreciation)

	2007	2006
Furniture and Equipment	\$ 37,902	\$ 27,999
Leases	28,586	12,672
Totals	<u>\$ 66,488</u>	<u>\$ 40,671</u>

For more information on capital assets see Note 5 to the basic financial statements.

Debt

At June 30, 2007, the School had \$33,346 in Capital Leases Payable, \$8,883 of which is due within one year. Table 4 summarizes Capital Leases outstanding.

Table 4
Outstanding Debt, at Year End

	2007	2006
Capital Leases	\$ 33,346	\$ 14,279
Total Outstanding Debt	<u>\$ 33,346</u>	<u>\$ 14,279</u>

Current Financial Issues

The School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2006-2007 school year, there were approximately 126 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2007 amounted to \$5,403 per student.

Contacting the Schools' Financial Management

This financial report is designed to provide our citizen's with a general overview of the Schools' finances and to show the Schools' accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Ellin Bick, Director at Meadows CHOICE Community School, 1853 South Avenue, Toledo, Ohio 43609 or e-mail at ellinbick@aol.com.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**Statement of Net Assets
As of June 30, 2007**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 55,795
Intergovernmental Receivables	40,734
Prepaid Items	14,627
Total Current Assets	<u>111,156</u>

Non-Current Assets:

Security Deposits	4,000
Capital Assets, Net of Accumulated Depreciation	66,488
Total Noncurrent Assets	<u>70,488</u>
Total Assets	<u>181,644</u>

Liabilities

Current Liabilities:

Accounts Payable	6,761
Accrued Wages and Benefits Payable	100,821
Intergovernmental Payable	36,592
Total Current Liabilities	<u>144,174</u>

Noncurrent Liabilities:

Due Within One Year	8,883
Due In More Than One Year	24,463
Total Noncurrent Liabilities	<u>33,346</u>
Total Liabilities	<u>177,520</u>

Net Assets

Invested in Capital Assets, Net of Related Debt	33,142
Restricted for Grants	28,846
Unrestricted	(57,864)
Total Net Assets	<u>\$ 4,124</u>

See Accompanying Notes to the Basic Financial Statements

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007**

Operating Revenues

Foundation Basic Aid	\$ 834,567
Special Education	226,494
Other Operating Revenues	4,445
Total Operating Revenues	<u>1,065,506</u>

Operating Expenses

Salaries	690,636
Fringe Benefits	191,367
Purchased Services	390,105
Materials and Supplies	35,253
Depreciation	26,572
Other Operating Expenses	11,515
Total Operating Expenses	<u>1,345,448</u>
Operating Loss	<u>(279,942)</u>

Non-Operating Revenues and Expenses

Operating Grants - Federal	207,128
Operating Grants - State	11,909
Interest	1,814
Loss on Disposal of Asset	(325)
Interest and Fiscal Charges	(3,335)
Total Non-Operating Revenues and (Expenses)	<u>217,191</u>
Change in Net Assets	(62,751)

Net Assets at Beginning of Year	<u>66,875</u>
Net Assets at End of Year	<u>\$ 4,124</u>

See Accompanying Notes to the Basic Financial Statements

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007**

Increase/(Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 1,096,689
Cash Received from Other Operating Sources	4,445
Cash Payments to Suppliers for Goods and Services	(436,502)
Cash Payments to Employees for Services	(690,017)
Cash Payments for Employee Benefits	(196,259)
<i>Net Cash Used for Operating Activities</i>	<u>(221,644)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received - Federal	232,662
Operating Grants Received - State	11,909
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>244,571</u>

Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Acquisitions	(23,100)
Principal Payments	(11,097)
Interest Payments	(3,335)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(37,532)</u>

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>1,814</u>
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<i>Net Decrease in Cash and Cash Equivalents</i>	(12,791)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>68,586</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 55,795</u>

(Continued)

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007**

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

Operating Loss	\$ (279,942)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation	26,572
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	35,628
Increase in Prepaid Items	(7,123)
Decrease in Accounts Payable	(466)
Decrease in Accrued Wages Payable	(2,021)
Increase in Intergovernmental Payable	5,708
Net Cash Used for Operating Activities	<u>\$ (221,644)</u>

Noncash investing, capital, and financing activities:

Capital lease obligations of \$33,804 were incurred when the School entered into leases for new copiers.

See Accompanying Notes to the Basic Financial Statements

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Meadows CHOICE (Center for Habilitation Options Insuring Children's Education) Community School (The School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School 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 the School's tax-exempt status. The School's 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 youth ages 11 through 14, with multi-handicapped, behavioral problems, developmental disorders and/or learning disabilities. The School, 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. 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 an initial contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years ending July 24, 1998 and has been renewed annually. The Sponsor is responsible for evaluating the performance of the School 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 the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School (see Note 9).

The School 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 the School's one instructional/support facility staffed by 13 non-certified and 10 certificated full time teaching personnel who provide services to 125 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 a governmental nonprofit organization. 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, to its proprietary activities, 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

The School's financial statements consist of statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. 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 statements of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flow provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded 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 specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast that is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash and Cash Equivalents

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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

For the purposes of the statement of cash flows and the presentation on the Statement of Net Assets, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During the year ended 2007, the School only has deposits.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Basic Aid, the State Poverty-Based Assistance 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 are 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 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense in the year in which services are consumed.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of \$50 for furniture and equipment. The School does not possess any infrastructure.

Improvements are capitalized. The cost 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.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimate Life</u>
Furniture, Fixtures, and Equipment	5 years

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state and sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

K. Estimates

The preparation of the 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. Accordingly, actual results may differ from those estimates.

L. Security Deposits

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The lessor holds this amount, totaling \$4,000. (See Note 12)

3. DEPOSITS

At year end, none of the School's bank balance of \$91,671 was exposed to custodial credit risk as discussed below. All of the bank balance was covered by the Federal Depository Insurance Corporation.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

3. DEPOSITS – (Continued)

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental:	
Federal Food Reimbursement	\$ 8,326
FTE Underpayment	4,122
Title I	19,580
Title V	3
Title IV	1,078
Title IIA	1,178
IDEA-B	6,447
Total Intergovernmental Receivables	\$ 40,734

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
Capital Assets:				
Furniture, Fixtures, and Equipment	\$ 93,313	\$ 22,550		\$ 115,863
Capital Leases	32,734	33,804	\$ 13,217	53,321
Total Capital Assets	126,047	56,354	13,217	169,184
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(65,314)	(12,647)		(77,961)
Capital Leases	(20,062)	(13,925)	(9,252)	(43,239)
Total Accumulated Depreciation	(85,376)	(26,572)	(9,252)	(121,200)
Total Capital Assets, Net of Accumulated Depreciation	\$ 40,671	\$ 29,782	\$ 3,965	\$ 66,488

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School 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. During fiscal year 2007, the School contracted with the Cincinnati Insurance Company for general liability, property, and educational errors and omissions insurance. The insurance coverage is as follows:

Commercial General Liability per Occurrence	\$ 1,000,000
Commercial General Liability Aggregate	1,000,000
Commercial General Liability Products-Completed Operations	1,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Teacher's Professional Liability per Occurrence	1,000,000
Teacher's Professional Liability Aggregate	1,000,000
Employee Dishonesty	100,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The School owns no property, but leases a facility located at 1853 South Avenue, Toledo, Ohio.

B. Workers' Compensation

The School 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 Benefits

The School 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).

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$32,744, \$41,793 and \$30,728 respectively; 77 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement Systems

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

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

A DB or Combined Plan member with five or more years 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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$49,846, \$52,765, and \$27,974, respectively; 66 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$3,834 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

8. POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$16,311.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

9. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. A total contract payment of \$23,274 was paid during the year, and a liability in the amount of \$2,330 was accrued as a liability for the year ended June 30, 2007.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School 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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

9. FISCAL AGENT – (Continued)

- Pay obligations incurred by the School 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 the School so long as the proposed expenditure is within the approved budget and funds are available.

10. PURCHASED SERVICES

For the period ending June 30, 2007, purchased service expenses were payments for services rendered by various vendors, and are as follows:

<u>PURCHASED SERVICES</u>	
Professional and Technical Services	\$ 45,410
Property Services	253,178
Travel Mileage/Meeting Expense	5,391
Communications	6,728
Contracted Craft or Trade Service	77,381
Pupil Transportation Services	<u>2,017</u>
Total Purchased Services	<u><u>\$ 390,105</u></u>

11. CAPITALIZED LEASE – LESSEE DISCLOSURE

In June 2004, August 2005, August 2006, and February 2007, the School entered into capitalized leases for four copiers with MT Business Technologies, Inc. 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 lease. The capital lease has been recorded at the present value of the future minimum lease payments as of inception date. Payments made totaled \$11,097 for the year.

The following is a schedule of the future minimum lease payments required under the capital lease and present value of the minimum lease payment as of June 30, 2007.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 8,883	\$ 2,010
2009	9,518	1,375
2010	7,181	796
2011	5,367	357
2012	<u>2,397</u>	<u>73</u>
Total	<u><u>\$ 33,346</u></u>	<u><u>\$ 4,611</u></u>

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

12. OPERATING LEASE

The School renegotiated its operating lease, for the period August 1, 2006 through July 31, 2007, with the Bethel Lutheran Church, to lease classroom space to house the School, in the amount of \$7,058 per month. Rent payments in the amount of \$82,607 were made in fiscal year 2007. Per the lease agreement, a security deposit of \$4,000 was required to be paid at the signing of the agreement and is held by the lessor. The School has subsequently renewed this lease with Bethel Lutheran Church for an additional two year period commencing on August 1, 2007 and terminating on July 31, 2009. Rent will be paid in the amount of \$92,088 annually for two years payable in monthly installments of \$7,674.

13. CONTINGENCIES AND COMMITMENTS

A. Grants

The School 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 School. However, in the opinion of management, any such disallowed claims will not have an adverse material effect on the overall financial position of the School at June 30, 2007.

B. School Funding

The Ohio Department of Education reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2007, this review resulted in an underpayment of \$4,122. This amount has been accrued on the financial statements as an intergovernmental receivable. This amount will be added to the Schools 2008 monthly foundation payments.

C. Pending Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community School Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on Meadows CHOICE Community School cannot presently be determined.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 basic financial statements of Meadows CHOICE Community School, Lucas County, (the School) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 7, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We noted a certain matter that we reported to the School's management in a separate letter dated March 7, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance matter that we reported to the School's management in a separate letter dated March 7, 2008.

We intend this report solely for the information and use of the audit committee, management, Governing Board, and the School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 7, 2008

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

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

FINDING NUMBER 2007-001

Material Weakness

Financial Reporting

The School should have procedures in place to prevent or detect material misstatements for the accurate presentation of the School's financial statements and related disclosures. Errors were identified in calculating and posting journal entries to the financial statements during the GAAP conversion process which affected intergovernmental revenue, capital assets and the related depreciation, and accrued wages, resulting in eleven material audit adjustments totaling \$143,738.

The failure to record financial activity on the financial statements could result in material misstatements and inaccurate financial reporting.

We recommend due care be exercised in the calculation and preparation of the financial statements. Further, we recommend the School implement review procedures to detect material financial statement errors.

Officials Response:

The School did not respond to this finding.



Mary Taylor, CPA
Auditor of State

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 25, 2008**