



**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



VAIL MEADOWS CHOICE COMMUNITY SCHOOL

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## REPORT OF INDEPENDENT ACCOUNTANTS

Vail Meadows CHOICE Community School  
Lucas County  
6118 Cedar Point Road  
Oregon, Ohio 43618

To the Governing Board:

We have audited the Balance Sheet of Vail Meadows CHOICE Community School, Lucas County, (Meadows) as of June 30, 1999, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of Meadows' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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, 1999, and the results of operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2000 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.

**Jim Petro**  
Auditor of State

April 7, 2000



**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
BALANCE SHEET  
AS OF JUNE 30, 1999**

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**Assets:**

Current Assets:

Cash and Cash Equivalents	\$ 140,013
Intergovernmental Receivable	<u>103,903</u>
Total Current Assets	243,916

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation)	<u>50,513</u>
Total Assets	<u><u>\$ 294,429</u></u>

**Liabilities and Fund Equity:**

Current Liabilities:

Accounts Payable	\$ 8,719
Contracts Payable	3,519
Accrued Wages and Benefits	19,814
Intergovernmental Payable	<u>7,403</u>
Total Current Liabilities	39,455

Long-Term Liabilities:

Obligations Under Capital Lease	<u>7,390</u>
Total Liabilities	<u>46,845</u>

Fund Equity:

Retained Earnings: Unreserved	<u>247,584</u>
Total Liabilities and Fund Equity	<u><u>\$ 294,429</u></u>

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

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
STATEMENT OF REVENUES,  
EXPENSES, AND CHANGES IN RETAINED EARNINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

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**Operating Revenues:**

Foundation Payments	\$ 693,104
Disadvantaged Public Impact Aid	3,995
Other Operating Revenues	<u>500</u>
Total Operating Revenues	<u>697,599</u>

**Operating Expenses:**

Salaries	236,992
Fringe Benefits	73,014
Purchased Services	323,464
Materials and Supplies	15,855
Depreciation	4,785
Other Operating Expenses	<u>1,559</u>
Total Operating Expenses	<u>655,669</u>
Operating Income	<u>41,930</u>

**Non-Operating Revenues:**

Interest Earnings	2,755
Operating Grants	<u>202,899</u>
Total Non-Operating Revenues	<u>205,654</u>
Net Income	247,584
Retained Earnings at Beginning of Year	<u>0</u>
Retained Earnings at End of Year	<u><u>\$ 247,584</u></u>

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



**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

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

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$ 593,196
Cash Payments to Suppliers for Goods and Services	(321,250)
Cash Payments to Employees for Services	(282,789)
Other Operating Revenue	<u>500</u>
Net Cash (Used) by Operating Activities	<u>(10,343)</u>

**Cash Flows from Noncapital Financing Activities:**

Operating Grants Received	<u>202,899</u>
Net Cash Provided by Noncapital Financing Activities	<u>202,899</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	<u>(55,298)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(55,298)</u>

**Cash Flows from Investing Activities:**

Interest on Investments	<u>2,755</u>
Net Cash Provided by Investing Activities	<u>2,755</u>
Net Increase in Cash and Cash Equivalents	140,013
Cash and Cash Equivalents at the Beginning of the Year	<u>0</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 140,013</u></u>

(Continued)

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

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**Reconciliation of Operating Income to  
Net Cash Used By Operating Activities:**

Operating Income	<u>\$ 41,930</u>
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**Adjustments to Reconcile Operating Income to  
Net Cash Used by Operating Activities:**

Depreciation	4,785
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(103,903)
Increase in Accounts Payable	8,719
Increase in Contracts Payable	3,519
Increase in Accrued Wages Payable	19,814
Increase in Intergovernmental Payable	7,403
Increase in Obligations Under Capital Leases	<u>7,390</u>
Total Adjustments	<u>(52,273)</u>
Net Cash (Used) by Operating Activities	<u>\$ (10,343)</u>

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

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1999**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Vail Meadows CHOICE Community School (Meadows) is a non-profit 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 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 the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Vail Meadows CHOICE Community School, see Note 11.

Meadows operates under the direction of a six-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 5 non-certified and 3 certificated full-time teaching personnel who provide services to 29 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Meadows have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Meadows also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of Meadows' accounting policies are described below.

**A. Basis Of Presentation**

**Enterprise Accounting**

The School uses enterprise accounting 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.

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. 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 prescribes 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 all funds of Meadows are maintained in these accounts or temporarily used to purchase short-term investments. For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity 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 (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the 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. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Intergovernmental Revenues**

Meadows currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Meadows also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, Meadows was awarded \$50,000 for the planning phase of the school and an additional \$50,000 charter school sub-grant. Additionally, the Sponsor, as part of the Lucas County pilot project, awarded Meadows \$100,000 to partially defray school start-up costs. Revenues from these programs are recognized as non-operating revenue on the accompanying financial statements.

Commodities, grants, and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

**3. RECEIVABLES**

Receivables at June 30, 1999, consisted of other operating revenue and intergovernmental (e.g., foundation) 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.

**4. DEPOSITS AND INVESTMENTS**

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

At fiscal year end, the carrying amount of Meadows' deposits was a deficit (\$22,269) and the bank balance was \$33,444. The bank balance was covered by federal depository insurance.

Meadows' investments are categorized to give an indication of the level of risk assumed by Meadows at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by Meadows or its agent in Meadows' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in Meadows' name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in Meadows' name. Meadows' investments totaling \$162,282 (fair value), which are maintained in a Ready Resource Savings Account (repurchase agreement) are included in Category 2.

**5. FIXED ASSETS**

A summary of Meadows' fixed assets, at June 30, 1999, follows:

Capital Lease	\$ 7,390
Furniture and Equipment	47,908
Less: Accumulated Depreciation	<u>(4,785)</u>
Net Fixed Assets	<u><u>\$ 50,513</u></u>

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**6. 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 1999, Meadows contracted with Harcum-Hyre Insurance Agency, Inc. for property and general liability insurance.

Professional liability is protected by Harcum-Hyre Insurance Agency, Inc. with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

**B. Workers' Compensation**

Meadows pays the State Workers' 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, and Vision Benefits**

Meadows has contracted with a private carrier to provide employee medical, dental, and vision insurance to its full-time employees who work 40 or more hours per week.

**7. DEFINED BENEFIT PENSION PLANS**

**A. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose the Social Security System. As of June 30, 1999, Meadows has no employees or members of the Governing Board who contribute to the Social Security System.

**B. School Employees Retirement System**

Meadows contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and Meadows is required to contribute 14 percent; for fiscal year 1999, 7.7 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. Meadows' required contribution for pension obligations to SERS for the fiscal year ended June 30, 1999, was \$17,719 of which 88.9% has been contributed for fiscal year 1999, and \$1,973 representing the unpaid contribution which has been recorded as a liability.

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and Meadows is required to contribute 14 percent; 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 year ended June 30, 1999 was \$18,868, of which 87.4% has been contributed for fiscal year 1999, and \$2,371 representing the unpaid contribution which has been recorded as a liability.

**8. POST-EMPLOYMENT 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 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. The Governing Board currently allocates employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For Meadows, this amount equaled \$377 during the 1999 fiscal year.

For SERS, coverage is made available to service retirees with ten or more fiscal 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 this fiscal year, employer contributions to fund health care benefits were 3.5 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 1999, the minimum pay has been established at \$12,400. For Meadows, the amount to fund health care benefits, including surcharge, equaled \$620 during the 1999 fiscal year.

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**9. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Meadows. During the fiscal year ended June 30, 1999, Meadows received \$693,104 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of April 7, 2000, The Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, Meadows is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**10. CONTINGENCIES**

**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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 1999.

**11. FISCAL AGENT**

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Vail 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 Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the School:

1. Maintain custody of all funds received by the school in segregated accounts separate from the Sponsor's or any other Community School's funds;
2. Maintain all books and accounts of all funds of the school;
3. Maintain all financial records of all state funds of the school and follow State Auditor procedures for receiving and expending state funds;



**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**11. FISCAL AGENT (Continued)**

4. Assist the school in meeting all financial reporting requirements established by the Auditor of Ohio;
5. 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
6. 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.

**12. CAPITALIZED LEASE - LESSEE DISCLOSURE**

During fiscal year 1999, Meadows entered into a capital 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.

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, 1999.

Fiscal Year Ending June 30,		
2000	\$	2,109
2001		2,109
2002		2,108
2003		2,108
2004		527
Total minimum lease payments		8,961
Less: amount representing interest		(1,571)
Present value of minimum lease payments	\$	7,390

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

Vail Meadows CHOICE Community School  
Lucas County  
6118 Cedar Point Road  
Oregon, Ohio 43618

To the Governing Board:

We have audited the financial statements of Vail Meadows CHOICE Community School, Lucas County, (Meadows) as of and for the year ended June 30, 1999, and have issued our report thereon dated April 7, 2000. We conducted our audit in accordance with generally accepted auditing standards 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Meadows in a separate letter dated April 7, 2000.

**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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Meadows' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1999-10148-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Meadows in a separate letter dated April 7, 2000.

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.

**Jim Petro**  
Auditor of State

April 7, 2000

**VAIL MEADOWS CHOICE COMMUNITY SCHOOL  
SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 1999-10148-001**

**Material Weakness - Fixed Assets**

The following control weaknesses over fixed assets exist:

1. Meadows has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information.
2. Meadows has not developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.
3. Meadows has not implemented procedures to perform periodic inventory of assets, as listed on the fixed asset accounting system.
4. The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for Meadows.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that Meadow's assets will be misstated, we recommend:

1. The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting Meadow's capitalization criteria. Further, addition and disposal forms should be completed by the school and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation.
2. Meadows develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**VAIL 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  
MAY 4, 2000**