



**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management Discussion and Analysis .....	3
Basic Financial Statements:	
Statement of Net Assets .....	7
Statement of Revenues, Expenses, and Changes in Net Assets .....	8
Statement of Cash Flows .....	9
Notes to the Financial Statements .....	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	23

**This page intentionally left blank.**



**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 accompanying basic financial statements of Meadows CHOICE Community School, Lucas County, (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Meadows CHOICE Community School, Lucas County, as of June 30, 2005, and the 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 May 22, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

May 22, 2006

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of Meadows CHOICE Community School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

- In total, net assets decreased \$32,651. This decrease was due to an increase in accrued wages and accounts payable.
- Total assets increased \$2,562. This was primarily due to an increase in Depreciable Capital Assets, Net.
- Liabilities increased \$35,213 due to an increase in accrued wages and benefits that were incurred before June 30, 2005, but were paid in July and August.

**Using this 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 a 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 of the School's services, including instruction, support services, and community services. Unrestricted state aid 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, 2005  
UNAUDITED  
(Continued)**

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004:

Table 1 Net Assets		
	2005	2004
<b>Assets</b>		
Current Assets	\$ 238,220	\$ 240,841
Security Deposits	4,000	4,000
Capital Assets, Net	32,411	27,228
<i>Total Assets</i>	274,631	272,069
<b>Liabilities</b>		
Current Liabilities	119,406	79,757
Non-Current Liabilities	19,099	23,535
<i>Total Liabilities</i>	138,505	103,292
<b>Net Assets</b>		
Invested in Capital Assets Restricted	15,312	3,693
Unrestricted	120,814	165,084
<i>Total Net Assets</i>	\$ 136,126	\$ 168,777

- In total, net assets decreased \$32,651. This decrease was due to an increase in accrued wages and accounts payable.
- Total assets increased \$2,562.
- Liabilities increased \$35,213 due to an increase of \$24,041 in accrued wages and benefits and an increase in accounts payable of \$10,097.



**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)  
Change in Net Assets

	2005	2004
<b>Revenues</b>		
Operating Revenues:		
Foundation Payments	\$ 500,123	\$ 329,042
Disadvantaged Pupil Impact Aid	27,920	20,200
Special Education	360,424	472,508
Food Services		1,782
Classroom Fees		75
Other	5,463	6,329
<b>Non-Operating Revenues (Expenses):</b>		
Federal Grants	136,997	85,440
State Grants	11,582	77,130
Interest	1,390	313
Donations		172
Interest and Fiscal Charges	(2,237)	(949)
<i>Net Revenues</i>	<u>1,041,662</u>	<u>992,042</u>
<b>Expenses</b>		
Operating Expenses		
Salaries	488,417	354,217
Fringe Benefits	136,905	112,946
Purchased Services	337,536	283,237
Materials and Supplies	86,833	41,022
Depreciation	9,681	9,789
Other Expenses	14,941	13,576
<i>Total Expenses</i>	<u>1,074,313</u>	<u>814,787</u>
<i>Increase (decrease) in Net Assets</i>	<u>\$ (32,651)</u>	<u>\$ 177,255</u>

There was an increase in revenues of \$49,620 and an increase in expenses of \$259,526 from 2004. Of the increase in revenues, the foundation payments increased by \$171,081, and Disadvantaged Pupil Impact Aid (DPIA) increased by 7,720. Federal grants increased by \$51,557. These increases were offset by a decrease in Special Education by \$112,084, due to less Special Education students. State grants decreased by \$65,548. Community Schools receive no support from tax revenues.

The expense for salaries increased by \$134,200 and the expense for fringe benefits increased by \$23,959 from 2004. This was primarily due to an increase in staff during fiscal year 2005. Purchased Services and Material and supplies expense increased by \$100,110 from 2004. Due to the increase in federal subsidies and state foundation revenues, expenditures for professional and technical services increased and more supplies were purchased.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Capital Assets**

At the end of fiscal year 2005, the School had \$32,411, invested in furniture and equipment, and capital leases, which represented an increase of \$5,183 from 2004. Table 3 shows fiscal year 2005 and fiscal year 2004:

Table 3  
Capital Assets at June 30, 2005  
(Net of Depreciation)

	2005	2004
Furniture and Equipment	\$ 15,409	\$ 5,157
Capital Lease	17,002	22,071
Totals	<u>\$ 32,411</u>	<u>\$ 27,228</u>

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

**Debt**

At June 30, 2005, the School had \$19,099 in Capital Leases Payable, \$4,820 of which is due within one year. Table 4 summarizes Capital Leases outstanding.

Table 4  
Outstanding Debt, at Year End

	2005	2004
Capital Leases	\$ 19,099	\$ 23,535
Total Outstanding Debt	<u>\$ 19,099</u>	<u>\$ 23,535</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 2004-2005 school year, there were approximately 83 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2005 amounted to \$5,058 per student.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's 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 43609-2054 or e-mail at [ellinbick@aol.com](mailto:ellinbick@aol.com).

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 202,158
Accounts	223
Intergovernmental Receivables	29,462
Prepaid Items	6,377
<i>Total Current Assets</i>	<u>238,220</u>

Non-Current Assets:

Security Deposits	4,000
Capital Assets:	
Depreciable Capital Assets, Net	32,411
<i>Total Non-Current Assets</i>	<u>36,411</u>

<i>Total Assets</i>	<u>274,631</u>
---------------------	----------------

**Liabilities**

Current Liabilities:

Accounts Payable	10,936
Accrued Wages and Benefits	82,907
Intergovernmental Payable	25,563
<i>Total Current Liabilities</i>	<u>119,406</u>

Non-Current Liabilities

Due Within One Year	4,820
Due In More Than One Year	14,279
<i>Total Non-Current Liabilities</i>	<u>19,099</u>

<i>Total Liabilities</i>	<u>138,505</u>
--------------------------	----------------

**Net Assets**

Invested in Capital Assets, Net of Related Debt	15,312
Unrestricted	120,814
<i>Total Net Assets</i>	<u>\$ 136,126</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, 2005

<b>Operating Revenues</b>	
Foundation Payments	500,123
Disadvantaged Pupil Impact Aid	27,920
Special Education	360,424
Other Revenues	5,463
	<hr/>
<i>Total Operating Revenues</i>	<i>893,930</i>
	<hr/>
<b>Operating Expenses</b>	
Salaries	488,417
Fringe Benefits	136,905
Purchased Services	337,536
Materials and Supplies	86,833
Depreciation	9,681
Other	14,941
	<hr/>
<i>Total Operating Expenses</i>	<i>1,074,313</i>
	<hr/>
<i>Operating Loss</i>	<i>(180,383)</i>
	<hr/>
<b>Non-Operating Revenues and Expenses</b>	
Federal Grants	136,997
State Grants	11,582
Interest	1,390
Interest and Fiscal Charges	(2,237)
	<hr/>
<i>Total Non-Operating Revenues and Expenses</i>	<i>147,732</i>
	<hr/>
<i>Change in Net Assets</i>	<i>(32,651)</i>
	<hr/>
<i>Net Assets Beginning of Year</i>	<i>168,777</i>
	<hr/>
<i>Net Assets End of Year</i>	<i>\$ 136,126</i>
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

<u>Cash Flows from Operating Activities:</u>	
Cash Received from Others	5,240
Cash Received from Foundation Payments	485,885
Cash Received from Disadvantaged Pupil Impact Aid	44,765
Cash Received from Special Education	360,424
Cash Payments to Suppliers for Goods and Services	(430,805)
Cash Payments to Employees for Services	(465,566)
Cash Payments for Employee Benefits	(122,353)
	<u>(122,410)</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received - Federal	139,000
Operating Grants Received - State	11,582
	<u>150,582</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	(14,864)
Principal Payments	(4,436)
Interest Payments	(2,237)
	<u>(21,537)</u>
 <u>Cash Flows from Investing Activities:</u>	
Interest	1,390
	<u>1,390</u>
<i>Net Cash Provided by Investing Activities</i>	<u>1,390</u>
<i>Net Increase in Cash and Cash Equivalents</i>	8,025
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>194,133</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 202,158</u>

(Continued)

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)

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

Operating Loss	\$ (180,383)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>	
Depreciation	9,681
Increase in Accounts Receivable	(208)
Decrease in Intergovernmental Receivable	2,607
Increase in Prepaid Items	6,244
Increase in Accounts Payable	8,097
Increase in Accrued Wages and Benefits	24,041
Increase in Intergovernmental Payable	7,511
	<hr/>
<i>Total Adjustments</i>	57,973
	<hr/>
<i>Net Cash Used for Operating Activities</i>	<u>\$ (122,410)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 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 youths 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 commencing 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 Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School (see Note 10).

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 11 non-certified and 5 certificated full time teaching personnel who provide services to 83 students.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Meadows CHOICE Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, 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 basic financial statements consist of a statement of net assets, a statement of revenue, 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 BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 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 statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows 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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

Expenses are recognized at the time they are incurred.

**D. 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 the contract between the School and its sponsor. The contract between the School 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.

**E. Cash and Cash Equivalents**

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

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.



**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**F. Intergovernmental Revenues**

The School 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 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 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.

The School also participates in the Title Programs through the Ohio Department of Education. Under these programs, the School received \$136,997. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported 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 year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of fifty dollars. The School 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.

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

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

**I. Net Assets**

Net assets represent the difference between assets and liabilities. 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.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**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. 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 financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from 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. This amount, totaling \$4,000 is held by the lessor. (See Note 13)

**NOTE 3 - DEPOSITS**

**Deposits**

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. At year end, \$117,962 of the School's bank balance of \$217,962 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department of agent, but not in the School's name.

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.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2005, consisted of accounts and intergovernmental receivables. All receivables are considered collectable in full. A summary of the principal items of intergovernmental receivables follows:

Receivables	Amount
Intergovernmental:	
Food Service Reimbursement	\$ 14,143
Foundation Payments	14,237
Title IIA '05	1,082
Total Intergovernmental Receivables	\$ 29,462

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
<b>Business-Type Activity</b>				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ 56,784	\$ 14,864		\$ 71,648
Capital Leases	32,734			32,734
Total Capital Assets				
Being Depreciated	89,518	14,864		104,382
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(51,627)	(4,612)		(56,239)
Capital Leases	(10,663)	(5,069)		(15,732)
Total Accumulated Depreciation	(62,290)	(9,681)		(71,971)
Total Capital Assets				
Being Depreciated, Net	\$ 27,228	\$ 5,183		\$ 32,411

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 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 2005, the School contracted with Cincinnati Insurance Company for general liability, property, and educational errors and omissions insurance.

Coverages are as follows:

Commercial General Liability per occurrence	\$ 1,000,000
Commercial General Liability aggregate	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

The School owns no property, but leases a facility located at 1853 South Avenue, Toledo, Ohio.

Settled claims have not exceeded this commercial coverage in any of the past two years. There has been no significant change in insurance coverage from last year.

**B. Workers' Compensation**

The School 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, Vision, Prescription, and Life 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).

**NOTE 7 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 7 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)**

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP 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, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute 14 percent; 13 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.

The School's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003, was \$27,974, \$22,268, and \$21,922, respectively; 96.64 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. \$939 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

**B. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 7 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)**

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, was \$30,728, \$16,454, and \$12,452 respectively; 79.57 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. \$6,277 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

**NOTE 8 – POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount was \$2,109.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the School, the amount to fund health care benefits, including the surcharge, was \$23,041 for fiscal year 2005.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 8 – POSTEMPLOYMENT BENEFITS – (CONTINUED)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

**NOTE 9 - CONTINGENCIES**

**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 a material adverse effect on the overall financial position of the School at June 30, 2005.

**B. State 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 of the State, upon which state foundation funding is calculated. For fiscal year 2005, the results of this review resulted in an increase of \$14,237. This amount was recorded as an intergovernmental receivable on the financial statements. This amount will be added to the School's future foundation payments.

**C. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's 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 on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

**NOTE 10 - 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 \$20,393 was paid during the year, and a liability in the amount of \$2,121 was accrued for the year ended June 30, 2005.

**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 10 - FISCAL AGENT – (CONTINUED)**

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
- 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 Director of the School so long as the proposed expenditure is within the approved budget and funds are available.

**NOTE 11 - PURCHASED SERVICES**

For the period July 1, 2004, through June 30, 2005, purchased service expenses were payments for services rendered by various vendors, and are as follows:

<b><u>PURCHASED SERVICES</u></b>	
Professional and Technical Services	\$ 62,095
Property Services	263,453
Travel Mileage/Meeting Expense	5,214
Communications	<u>6,774</u>
Total Purchased Services	<u><u>\$ 337,536</u></u>

**NOTE 12 – CAPITALIZED LEASE – LESSEE DISCLOSURE**

In August of 2003 and June of 2004, the School entered into capitalized leases for three copiers with MT Business Technologies, Inc. These leases have been recorded at the present value of the future minimum lease payments as of inception date. Payments made totaled \$4,436 for the 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, 2005.



**MEADOWS CHOICE COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 12 – CAPITALIZED LEASE – LESSEE DISCLOSURE – (CONTINUED)**

Fiscal Year Ending, June 30,		
2006	\$	6,216
2007		6,216
2008		6,216
2009		3,466
Total		<u>22,114</u>
Less: amount representing interest		<u>(3,015)</u>
Present value of minimum lease payments	\$	<u><u>19,099</u></u>

**NOTE 13 – OPERATING LEASE**

The School has entered into an operating lease, for the period August 1, 2004, through July 31, 2005, with the Bethel Lutheran Church, to lease classroom space to house the School, in the amount of \$6,336 per month. Rent payments in the amount of \$75,456 were made in fiscal year 2005. 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.

**NOTE 14 – SUBSEQUENT EVENT**

On August 1, 2005, the School renegotiated an operating lease, for the period August 1, 2005, through July 31, 2006, with Bethel Lutheran Church, to lease space to house the School, in the amount of \$6,336 per month. The lessor holds a security deposit in the amount of \$4,000.

**NOTE 15 - RELATED PARTY TRANSACTION**

During the year, the School's Governing Board entered into a one-year employment contract with a teacher, Jonathon Bick. The teacher's mother, Ellin Bick is the Director of Meadows Choice. Total payments to the teacher were \$22,135, which is the Board approved contract amount.

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**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 the Meadows CHOICE Community School, Lucas County (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated May 22, 2006. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider 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 the School in a separate letter dated May 22, 2006.

**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*.

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

Meadows CHOICE Community School  
Lucas County  
Independent Accountant's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by Government Auditing Standards  
Page 2

We intend this report solely for the information and use of the audit committee, management, the Governing Board, and Sponsor. It is not intended for 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

May 22, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
JUNE 22, 2006**