



**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**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 Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 25 |

This page intentionally left blank.



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, 2006, 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 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 respective financial position of the School, as of June 30, 2006, 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 12, 2007, 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 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 12, 2007

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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, 2006. The intent of this discussion and analysis is to look at the Schools' financial performance as a whole; notes to the basic financial statements and financial statements to enhance their understanding of the Schools' financial performance.

Financial Highlights

- Total Assets were \$222,657.
- Total Liabilities were \$155,782.
- Total Change in Net Assets was \$(69,251).

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, 2006
UNAUDITED
(Continued)**

Table 1 provides a summary of the Schools' net assets for fiscal year 2006 compared to fiscal year 2005:

Table 1
Net Assets

| | 2006 | 2005 |
|----------------------------|------------|------------|
| Assets | | |
| Current Assets | \$ 177,986 | \$ 238,220 |
| Security Deposits | 4,000 | 4,000 |
| Capital Assets, Net | 40,671 | 32,411 |
| <i>Total Assets</i> | 222,657 | 274,631 |
| Liabilities | | |
| Current Liabilities | 141,503 | 119,406 |
| Non-Current Liabilities | 14,279 | 19,099 |
| <i>Total Liabilities</i> | 155,782 | 138,505 |
| Net Assets | | |
| Invested in Capital Assets | 26,392 | 15,312 |
| Restricted Net Assets | 14,303 | |
| Unrestricted | 26,180 | 120,814 |
| <i>Total Net Assets</i> | \$ 66,875 | \$ 136,126 |

Total assets decreased \$51,974, which represents an 18.93 percent decrease from fiscal year 2005. While cash and cash equivalents decreased by \$133,572 and intergovernmental receivables increased by \$72,434. Cash and cash equivalents decreased due to increase spending in personnel and purchased services during fiscal year end 2006. Intergovernmental receivable increased due to the FTE review which resulted in the School receiving additional funds. Total liabilities increased by \$17,277, which represents a 12.47 percent increase from fiscal year 2005. This increase was mainly due to an increase in accrued wages and benefits for added personnel. The School's net assets decreased by \$69,251, represents a 50.87 percent decrease from fiscal year 2005 for the reasons mentioned previously.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for the fiscal year ended 2006. For comparison purposes, data from the June 30, 2005 year-end is reported to the right of the current year's figures.

Table 2
Change in Net Assets

| | 2006 | 2005 |
|-------------------------------|--------------------|--------------------|
| Revenues | | |
| Operating Revenues: | | |
| Foundation Basic Aid | \$ 674,705 | \$ 500,123 |
| Poverty-Based Assistance | 41,302 | 27,920 |
| Special Education | 269,404 | 360,424 |
| Other | 5,897 | 5,463 |
| Non-Operating Revenues: | | |
| Federal Grants | 196,336 | 136,997 |
| State Grants | 7,450 | 11,582 |
| Interest | 1,770 | 1,390 |
| Donations | 5,500 | |
| Total Revenues | 1,202,364 | 1,043,899 |
| Expenses | | |
| Operating Expenses: | | |
| Salaries | 590,436 | 488,417 |
| Fringe Benefits | 185,954 | 136,905 |
| Purchased Services | 413,408 | 337,536 |
| Materials and Supplies | 56,324 | 86,833 |
| Depreciation | 13,405 | 9,681 |
| Other Expenses | 10,235 | 14,941 |
| Non-Operating Expenses: | | |
| Interest and Fiscal Charges | 1,853 | 2,237 |
| Total Expenses | 1,271,615 | 1,076,550 |
| Decrease in Net Assets | \$ (69,251) | \$ (32,651) |

State Foundation Basic Aid and Special Education, as a whole, are the primary support for the School, representing 95.24 percent of the operating revenue. Salaries and Fringe Benefits comprise 61.14 percent of operating expenses.

The School had total revenues of \$1,202,364, and total expenses of \$1,271,615. The change in net assets for the year was a decrease of \$69,251. This decrease is due to increase spending in personnel and purchased services during fiscal year end 2006.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2006, the School had \$40,671, invested in furniture, fixtures, and equipment, and capital leases (net of \$85,376 in accumulated depreciation). Table 3 shows fiscal year 2006 and fiscal year 2005:

Table 3
Capital Asset at June 30, 2006
(Net of Depreciation)

| | 2006 | 2005 |
|-------------------------|------------------|------------------|
| Furniture and Equipment | \$ 27,999 | \$ 14,670 |
| Capital Lease | 12,672 | 17,741 |
| Totals | <u>\$ 40,671</u> | <u>\$ 32,411</u> |

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

Debt

At June 30, 2006, the School had \$14,279 in Capital Leases Payable, \$5,239 of which is due within one year. Table 4 summarizes Capital Leases outstanding.

Table 4
Outstanding Debt, at Year End

| | 2006 | 2005 |
|------------------------|------------------|------------------|
| Capital Leases | <u>\$ 14,279</u> | <u>\$ 19,099</u> |
| Total Outstanding Debt | <u>\$ 14,279</u> | <u>\$ 19,099</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 2005-2006 school year, there were approximately 106 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2006 amounted to \$5,283 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, 2006**

Assets

Current Assets:

| | |
|-------------------------------|-----------|
| Cash and Cash Equivalents | \$ 68,586 |
| Intergovernmental Receivables | 101,896 |
| Prepaid Items | 7,504 |
| | <hr/> |
| Total Current Assets | 177,986 |

Non-Current Assets:

| | |
|---|---------|
| Security Deposits | 4,000 |
| Capital Assets, Net of Accumulated Depreciation | 40,671 |
| | <hr/> |
| Total Noncurrent Assets | 44,671 |
| | <hr/> |
| Total Assets | 222,657 |

Liabilities

Current Liabilities:

| | |
|------------------------------------|---------|
| Accounts Payable | 7,777 |
| Accrued Wages and Benefits Payable | 102,842 |
| Intergovernmental Payable | 30,884 |
| | <hr/> |
| Total Current Liabilities | 141,503 |

Noncurrent Liabilities:

| | |
|------------------------------|---------|
| Due Within One Year | 5,239 |
| Due In More Than One Year | 9,040 |
| | <hr/> |
| Total Noncurrent Liabilities | 14,279 |
| | <hr/> |
| Total Liabilities | 155,782 |

Net Assets

| | |
|---|-----------|
| Invested in Capital Assets, Net of Related Debt | 26,392 |
| Restricted for Grants | 14,303 |
| Unrestricted | 26,180 |
| | <hr/> |
| Total Net Assets | \$ 66,875 |

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, 2006**

| | |
|---|-------------------------|
| Operating Revenues | |
| Foundation Basic Aid | \$ 674,705 |
| Poverty-Based Assistance | 41,302 |
| Special Education | 269,404 |
| Other Operating Revenues | 5,897 |
| Total Operating Revenues | <u>991,308</u> |
| Operating Expenses | |
| Salaries | 590,436 |
| Fringe Benefits | 185,954 |
| Purchased Services | 413,408 |
| Materials and Supplies | 56,324 |
| Depreciation | 13,405 |
| Other Operating Expenses | 10,235 |
| Total Operating Expenses | <u>1,269,762</u> |
| Operating Loss | <u>(278,454)</u> |
| Non-Operating Revenues and Expenses | |
| Operating Grants - Federal | 196,336 |
| Operating Grants - State | 7,450 |
| Interest | 1,770 |
| Contributions and Donations | 5,500 |
| Interest and Fiscal Charges | (1,853) |
| Total Non-Operating Revenues and (Expenses) | <u>209,203</u> |
| Change in Net Assets | (69,251) |
| Net Assets at Beginning of Year | <u>136,126</u> |
| Net Assets at End of Year | <u><u>\$ 66,875</u></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, 2006**

Increase/(Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

| | |
|---|------------------|
| Cash Received from State of Ohio | \$ 955,922 |
| Cash Received from Other Operating Sources | 6,120 |
| Cash Payments to Suppliers for Goods and Services | (478,073) |
| Cash Payments to Employees for Services | (571,619) |
| Cash Payments for Employee Benefits | (185,695) |
| <i>Net Cash Used for Operating Activities</i> | <u>(273,345)</u> |

Cash Flows from Noncapital Financing Activities:

| | |
|---|----------------|
| Operating Grants Received - Federal | 153,391 |
| Operating Grants Received - State | 7,450 |
| Cash Received from Contributions and Donations | 5,500 |
| <i>Net Cash Provided by Noncapital Financing Activities</i> | <u>166,341</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|---|-----------------|
| Cash Payments for Capital Acquisitions | (21,665) |
| Principal Payments | (4,820) |
| Interest Payments | (1,853) |
| <i>Net Cash Used for Capital and Related Financing Activities</i> | <u>(28,338)</u> |

Cash Flows from Investing Activities:

| | |
|--|--------------|
| Cash Received from Interest on Investments | <u>1,770</u> |
|--|--------------|

| | |
|---|------------------|
| <i>Net Decrease in Cash and Cash Equivalents</i> | (133,572) |
| <i>Cash and Cash Equivalents at Beginning of Year</i> | <u>202,158</u> |
| <i>Cash and Cash Equivalents at End of Year</i> | <u>\$ 68,586</u> |

(Continued)

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006**

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

| | |
|----------------|--------------|
| Operating Loss | \$ (278,454) |
|----------------|--------------|

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

| | |
|--|---------------------|
| Depreciation | 13,405 |
| Changes in Assets and Liabilities: | |
| Increase in Intergovernmental Receivable | (29,489) |
| Increase in Prepaid Items | (1,127) |
| Decrease in Accounts Receivable | 223 |
| Decrease in Accounts Payable | (3,159) |
| Increase in Accrued Wages Payable | 19,935 |
| Increase in Intergovernmental Payable | 5,321 |
| Net Cash Used for Operating Activities | <u>\$ (273,345)</u> |

See Accompanying Notes to the Basic Financial Statements

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 amended and restated contract with the Lucas County Educational Service Center (the Sponsor) for a period of one year commencing July 1, 2005. The contract terminates on June 30, 2006, and thereafter, renews annually for one-year terms from July 1 to June 30. The contract was renewed for fiscal year 2007 by the Sponsor. 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 11 non-certified and 9 certificated full time teaching personnel who provide services to 106 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 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 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(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 prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated annually. 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.

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
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

During the year ended 2006, the School only has deposits.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, 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, 2006, 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 |

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 and special education payments from the state. Operating expenses are necessary costs incurred to provide the goods or services that are 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 \$97,905 was exposed to custodial credit risk as discussed below. All of the bank balance was covered by the Federal Depository Insurance Corporation.

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental receivables arising from grants, entitlement and shared revenues, and State foundation adjustment. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

| Receivables | Amount |
|-------------------------------------|------------|
| Intergovernmental: | |
| Title I '06 | \$ 53,877 |
| Foundation Payments (See note 13B) | 39,750 |
| Title V '06 | 246 |
| Title IV '06 | 1,717 |
| Title IIA '06 | 5,809 |
| Title IID '06 | 497 |
| Total Intergovernmental Receivables | \$ 101,896 |

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

| | Balance 06/30/05 | Additions | Deductions | Balance 06/30/06 |
|--|---------------------|-----------|------------|---------------------|
| Capital Assets: | | | | |
| Furniture, Fixtures, and Equipment | \$ 71,648 | \$ 21,665 | \$ - | \$ 93,313 |
| Capital Leases | 32,734 | | | 32,734 |
| Total Capital Assets | 104,382 | 21,665 | - | 126,047 |
| Less: Accumulated Depreciation | | | | |
| Furniture, Fixtures, and Equipment | (56,978) | (8,336) | | (65,314) |
| Capital Leases | (14,993) | (5,069) | - | (20,062) |
| Total Accumulated Depreciation | (71,971) | (13,405) | - | (85,376) |
| Total Capital Assets, Net of Accumulated Depreciation | \$ 32,411 | \$ 8,260 | \$ - | \$ 40,671 |

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(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 2006, 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 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.

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 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).

7. DEFINED BENEFIT PENSION PLANS

A. 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
JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2006, 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 employer rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 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 ending June 30, 2006, 2005, and 2004, were \$41,793, \$30,728, and \$16,454 respectively; 61.65 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004. \$9,749 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement Systems (STRS)

The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2006, 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. The School's required contribution for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$46,759, \$27,974, and \$22,268, respectively; 77.61 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. \$9,531 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2006 Comprehensive Annual Financial Report will be available after January 1, 2007. Additional information or copies of STRS Ohio's 2006 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS OhioWeb site at www.strsoh.org.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation is 3.42 percent. 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 2006, the minimum pay was established at \$27,400. 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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

8. POSTEMPLOYMENT BENEFITS – (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs for the year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150% 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% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 58,123.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, the Board allocated employer contributions equal to 3.42 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the School, the amount to fund health care benefits, including surcharge, equaled \$15,615 for the fiscal year ended June 30, 2006.

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion of June 30, 2005. For the School, this amount equaled \$2,864 for the fiscal year ended June 30, 2006.

For the fiscal year ended June 30, 2005 (the latest information available) net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

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 \$18,749 was paid during the year, and a liability in the amount of \$2,167 was accrued for the year ended June 30, 2006.

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 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 July 1, 2005, through June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

| PURCHASED SERVICES | |
|-------------------------------------|-------------------|
| Professional and Technical Services | \$ 63,382 |
| Property Services | 268,071 |
| Travel Mileage/Meeting Expense | 3,690 |
| Communications | 8,123 |
| Contracted Services | 62,946 |
| Other | 7,196 |
| Total Purchased Services | <u>\$ 413,408</u> |

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

11. CAPITALIZED LEASE

In August of 2004 and June of 2005, the School entered into capitalized leases for three 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 \$6,216 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, 2006.

| Fiscal Year Ending June 30, | Principal | Interest |
|-----------------------------|-----------|----------|
| 2007 | \$ 5,239 | \$ 977 |
| 2008 | 5,695 | 521 |
| 2009 | 3,345 | 121 |
| Total | \$ 14,279 | \$ 1,619 |

12. OPERATING LEASE

The School has entered into an operating lease, for the period August 1, 2005 through July 31, 2006, with the Bethel Lutheran Church, to lease classroom space to house the School, in the amount of \$7,058 per month. This lease was renewed for another one year term commencing August 1, 2006. Rent payments in the amount of \$84,696 were made in fiscal year 2006. 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.

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 are 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, 2006.

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 2006, the review has resulted in an underpayment made to the school in the amount of \$39,750. This amount has been accrued on the financial statements as an intergovernmental receivable.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

13. CONTINGENCIES AND COMMITMENTS – (Continued)

C. Pending Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under the Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Meadows CHOICE Community School is not presently determinable.

This page intentionally left blank.



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, Ohio (the School) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 12, 2007. 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.

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*. In a separate letter to the School's management dated March 12, 2007, we reported another matter related to noncompliance we deemed immaterial.

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

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

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

Mary Taylor, CPA
Auditor of State

March 12, 2007



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
APRIL 5, 2007**