



Dave Yost • Auditor of State

MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's 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 Basic Financial Statements	11
Schedule of Federal Awards Receipts and Expenditures	25
Notes to the Schedule of Federal Awards Receipts and Expenditures	26
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	27
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	29
Schedule of Findings and Questioned Costs.....	31
Corrective Action Plan.....	35
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	37

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Meadows CHOICE Community School
Lucas County
c/o Lucas County ESC
2275 Collingwood Boulevard
Toledo, Ohio 43620

To the Sponsor,

We have audited the accompanying basic financial statements of the Meadows CHOICE Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Meadows CHOICE Community School, Lucas County, Ohio, as of June 30, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the accompanying financial statements, the School was notified by the Ohio Department of Education that the School's charter was revoked and the School ceased operations on June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on it.



Dave Yost
Auditor of State

February 3, 2012

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The management's 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, 2011. 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 the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Net assets were \$20,833 at June 30 2011.
- The School had operating revenues of \$1,086,056 and operating expenses of \$1,534,636 for fiscal year 2011. The School also had \$446,491 in non-operating revenues (expenses) during fiscal year 2011. Total change in net assets for the fiscal year was a decrease of \$2,089.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2011?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the School finances and is meeting the cash flow needs of its operations.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The table below provides a summary of the School's net assets for fiscal years 2011 and 2010.

	Net Assets	
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets	\$ 56,008	\$ 195,089
Security deposits	4,000	4,000
Capital assets, net	<u>-</u>	<u>45,526</u>
Total assets	<u>60,008</u>	<u>244,615</u>
<u>Liabilities</u>		
Current liabilities	39,175	213,929
Non-current liabilities	<u>-</u>	<u>7,764</u>
Total liabilities	<u>39,175</u>	<u>221,693</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	-	37,762
Restricted	16,829	122,795
Unrestricted (deficit)	<u>4,004</u>	<u>(137,635)</u>
Total net assets	<u>\$ 20,833</u>	<u>\$ 22,922</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the School's net assets totaled \$20,833. The School ceased operations as of June 30, 2011 (see Note 16).

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation and special education payments attributed to 69.78% of total operating and non-operating revenues during fiscal year 2011.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2011 and 2010

	2011	2010
<u>Operating Revenues:</u>		
State foundation	\$ 1,003,395	\$ 1,167,595
Special education	71,194	53,444
Sales / charges for services	281	4,963
Other operating revenue	11,186	25,554
Total operating revenue	1,086,056	1,251,556
<u>Operating Expenses:</u>		
Salaries and wages	781,560	1,131,767
Fringe benefits	239,762	341,798
Purchased services	349,226	392,059
Materials and supplies	112,756	182,859
Depreciation	18,527	22,215
Other	32,805	33,576
Total operating expenses	1,534,636	2,104,274
<u>Non-operating revenues (expenses):</u>		
Federal and State grants	453,864	678,335
Loss on sale of assets	(6,999)	-
Interest income	56	199
Interest and fiscal charges	(430)	(796)
Total non-operating revenues (expenses)	446,491	677,738
Change in net assets	(2,089)	(174,980)
Net assets at beginning of year	22,922	197,902
Net assets at end of year	\$ 20,833	\$ 22,922

The School ceased operations as of June 30, 2011. The decrease in revenues and expenses is a result of a decline in enrollment due to the required closure of the School by the Ohio Department of Education ("ODE").

Capital Assets and Debt Administration

As of June 30, 2011, the School did not have any capital assets or long-term debt obligations. The School disposed of all assets prior to fiscal year end. The School made cancellation payments to terminate the capital lease obligation outstanding.

Cessation of Operations

ODE required the School to close by June 30, 2011 due to poor academic performance. Management appealed the decision but was ultimately required to shut down as of June 30, 2011.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact Mr. Richard Cox of Lucas County Educational Services Center, 2275 Collingwood Blvd. Toledo, Ohio 43620 or email at lc_rac@nwoca.org.

MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2011

Assets:	
Current assets:	
Cash and cash equivalents	\$55,541
Receivables:	
Accounts	88
Intergovernmental	379
	<hr/>
Total current assets	56,008
Non-current assets:	
Security deposit	4,000
	<hr/>
Total assets	60,008
Liabilities:	
Current liabilities:	
Accounts payable	2,870
Intergovernmental payable	36,305
	<hr/>
Total liabilities	39,175
Net assets:	
Restricted for other purposes	16,829
Unrestricted	4,004
	<hr/>
Total net assets	\$20,833
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating revenues:	
State foundation.	\$1,003,395
Special education.	71,194
Sales/charges for services.	281
Other	11,186
Total operating revenues	1,086,056
Operating expenses:	
Salaries and wages.	781,560
Fringe benefits.	239,762
Purchased services.	349,226
Materials and supplies	112,756
Depreciation	18,527
Other.	32,805
Total operating expenses.	1,534,636
Operating loss.	(448,580)
Non-operating revenues (expenses):	
Federal and state grants.	453,864
Interest revenue	56
Loss on disposal of capital assets	(6,999)
Interest and fiscal charges	(430)
Total non-operating revenues (expenses)	446,491
Change in net assets.	(2,089)
Net assets at beginning of year	22,922
Net assets at end of year.	\$20,833

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Cash received from State foundation	\$1,074,589
Cash received from sales/charges for services.	281
Cash received from other operations	11,606
Cash payments for salaries and wages.	(930,095)
Cash payments for fringe benefits	(265,924)
Cash payments to suppliers for goods and services.	(349,483)
Cash payments for materials and supplies	(112,756)
Cash payments for other expenses	(25,527)
	(597,309)
Net cash used in operating activities	(597,309)
Cash flows from noncapital financing activities:	
Federal and state grants.	583,314
Cash flows from capital and related financing activities:	
Gain on sale of capital assets.	20,000
Interest and fiscal charges	(430)
Principal retirement on capital lease	(7,764)
	(7,764)
Net cash provided by capital and related financing activities.	11,806
Cash flows from investing activities:	
Interest received	56
Net decrease in cash and cash equivalents.	(2,133)
Cash and cash equivalents at beginning of year	57,674
Cash and cash equivalents at end of year	\$55,541
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	(\$448,580)
Adjustments:	
Depreciation	18,527
Changes in assets and liabilities:	
Decrease in accounts receivable	332
Increase in intergovernmental receivable.	(379)
Decrease in prepayments	10,876
Decrease in accounts payable.	(2,991)
Decrease in accrued wages and benefits.	(160,078)
Increase in intergovernmental payable.	23,764
Decrease in pension obligation payable.	(38,780)
	(38,780)
Net cash used in operating activities.	(\$597,309)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 youth ages 11 through 14, with multi-handicapped, behavioral problems, developmental disorders and/or learning disabilities. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under an initial contract with the Lucas County Educational Service Center (the "Sponsor") for a period of five years ending July 24, 1998 and has been renewed annually. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School (See Note 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its proprietary activities, provided it does 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 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 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.

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

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

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 are reported as investments.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During fiscal year 2011, investments were limited to repurchase agreements. Investments were reported at fair value which is based on quoted market prices.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, American Recovery and Reinvestment Act (ARRA) grants, EMIS grant, Federal Food Service grants, Education Jobs grant, IDEA-B grant, the Title VI-B grant, Title I, Title I-A, Title II-A, Title II-D, Title V and the Title IV-A. Revenues from the State Foundation Program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. 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 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, 2011, 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 \$500 for furniture and equipment, capital leases and vehicles. The School does not possess any infrastructure. The School disposed of all capital assets prior to June 30, 2011.

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>Estimated Life</u>
Furniture, Fixtures and Equipment	5 years
Capital Leases	5 years
Vehicles	5 years

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Net Assets

Net assets represent the difference between assets and liabilities.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. Net assets restricted for other purposes includes amounts restricted for food service operations and student activities.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Operating Revenues and Expenses

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

K. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results may differ from those estimates.

L. Security Deposits

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The lessor holds this amount, totaling \$4,000 (See Note 13).

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2011, the School has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the School.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all the School's deposits was \$25,218, exclusive of the \$30,323 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, the School's entire bank balance of \$54,812 was covered by the Federal Deposit Insurance Corporation (FDIC).

B. Investments

As of June 30, 2011, the School had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase agreement	<u>\$ 30,323</u>	<u>\$ 30,323</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the School's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The Farmer Mac security underlying the repurchase agreement was rated Aa1 by Moody's and was unrated by Standard and Poor's. The School has no investment policy dealing with credit risk beyond the requirements of State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the School's \$30,323 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the School. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The School has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreement	\$ 30,323	100.00

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 25,218
Investments	<u>30,323</u>
Total	<u>\$ 55,541</u>
 <u>Cash and investments per statement of net assets</u>	
Business-type activities	<u>\$ 55,541</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2011 consisted of intergovernmental and account receivables. All receivables are considered collectable in full. The School's intergovernmental receivables were refunds from Ohio Bureau of Workers' Compensation of \$109 and \$270 from School Employees Retirement System (SERS).

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
Capital assets:				
Furniture, fixtures and equipment	\$ 98,689	\$ -	\$ (98,689)	\$ -
Capital leases	45,931	-	(45,931)	-
Vehicles	10,069	-	(10,069)	-
Total capital assets	<u>154,689</u>	<u>-</u>	<u>(154,689)</u>	<u>-</u>
Less: accumulated depreciation				
Furniture, fixtures and equipment	(64,876)	(11,848)	76,724	-
Capital leases	(41,266)	(4,665)	45,931	-
Vehicles	<u>(3,021)</u>	<u>(2,014)</u>	<u>5,035</u>	<u>-</u>
Total accumulated depreciation	(109,163)	(18,527)	127,690	-
Total capital assets, Net of accumulated depreciation	<u>\$ 45,526</u>	<u>\$ (18,527)</u>	<u>\$ (26,999)</u>	<u>\$ -</u>

NOTE 7 - 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 2011, the School contracted with the Ohio Casualty Group 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	2,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Automobile Liability	1,000,000
Umbrella Liability	1,000,000

The School owns no property, but leases a facility located at 1853 South Avenue, Toledo, Ohio. Settled claims have not exceeded commercial coverage in the past three years and there have been no significant reductions in insurance coverage from fiscal year 2010.

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 7 - RISK MANAGEMENT - (Continued)

C. Employee Benefits

The School contracted through the Lucas County Educational Service Center to provide employee medical, dental and vision insurance to its employees. The School pays the full amount of the monthly premiums for all selected coverage (medical, dental and/or vision).

NOTE 8 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$31,232, \$58,298 and \$35,031, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2011, 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$86,533, \$81,871 and \$54,155, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$4,917 made by the School and \$3,512 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The School's liability is 6.2 percent of wages paid.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$14,911, \$7,913 and \$20,828, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$2,010, \$3,467 and \$2,890, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The School contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$6,656, \$6,298 and \$4,166, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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 \$31,265 was paid during the fiscal year.

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 - PURCHASED SERVICES

For fiscal year 2011, purchased service expenses were payments for services rendered by various vendors, and are as follows:

PURCHASED SERVICES	
Professional and technical services	\$ 178,133
Property services	152,998
Travel mileage/meeting expense	3,775
Communications	7,121
Contracted craft or trade service	3,843
Pupil transportation services	<u>3,356</u>
Total	<u>\$ 349,226</u>

NOTE 12 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In a prior year, the School entered into capitalized leases for four copiers with MT Business Technologies, Inc. The leases meet 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. Principal and interest payments made totaled \$7,764 and \$430, respectively for fiscal year 2011. The lease agreements were terminated during fiscal year 2011.

NOTE 13 - OPERATING LEASES

The School renewed the operating lease with Bethel Lutheran Church, for the period August 1, 2010 through July 31, 2011 to lease classroom space to house the School, in the amount of \$8,300 per month. Rent payments in the amount of \$99,436 were made in fiscal year 2011. 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 - RELATED PARTY TRANSACTION

The Academy leases it's building from Bethel Lutheran Church. Don Kierstead, School Governing Board member, is also on the Bethel Lutheran Church Council. The School has paid \$99,436 during fiscal year 2011.

NOTE 15 - CONTINGENCIES

A. Grants

The School received financial assistance from State agencies in the form of grants. The expense 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. 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, 2011.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 15 - CONTINGENCIES - (Continued)

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The School ceased operations on June 30, 2011.

C. Litigation

The School is not involved in any litigation.

NOTE 16 - CEASED OPERATIONS

The School was notified by the Ohio Department of Education ("ODE") that it must close by June 30, 2011 due to continued poor academic performance. ODE's determination was based on the specific performance criteria described in Ohio Revised Code Section 3314.35 ("ORC") as revised by the Ohio General Assembly effective July 17, 2009. The School ceased operations on June 30, 2011.

NOTE 17 - SUBSEQUENT EVENT

The School has followed the closing procedures prescribed by ODE. These procedures included, among others, official notification to ODE, retirement systems, the students and the community, disposition of assets and the preparation of financial statements.

As of the date of the report, the School had a cash balance of \$39,127. All payables and receivables outstanding June 30, 2011 have been paid and received, except \$24,930 related to unemployment compensation. Total expenditures and cash receipts subsequent to year end through the report date were \$1,382 and \$17,794 respectively. Once all liabilities are liquidated, any residual cash balance will be returned to ODE as required by ORC 3313.074.

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**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Nutrition Cluster:</u>			
National School Breakfast Program	10.553	\$35,208	\$35,208
National School Lunch Program	10.555	56,770	56,770
TOTAL U.S. DEPARTMENT OF AGRICULTURE		91,978	91,978
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States (IDEA Part B)			
Special Education Grants to States (IDEA Part B) - FY10	84.027	2,377	3,640
Special Education Grants to States (IDEA Part B) - FY11	84.027	62,908	62,761
<i>Total Special Education Grants to States (IDEA Part B)</i>		65,285	66,401
ARRA Special Education Grants to States (IDEA Part B)			
ARRA - Education Grants to States (IDEA Part B) - FY10	84.391	9,531	6,238
ARRA - Education Grants to States (IDEA Part B) - FY11	84.391	3,350	3,350
<i>Total ARRA Special Education Grants to States (IDEA Part B)</i>		12,881	9,588
Special Education - Preschool Grant			
Special Education - Preschool Grant	84.173	1,018	1,018
<i>Total Special Education Cluster</i>		79,184	77,007
<u>Title I, Part A Cluster</u>			
Title IA Grants to Local Educational Agencies			
Title IA Grants to Local Educational Agencies - FY10	84.010	16,577	17,881
Title IA Grants to Local Educational Agencies - FY11	84.010	164,295	164,295
<i>Total Title IA Grants to Local Educational Agencies</i>		180,872	182,176
ARRA - Title IA Grants to Local Educational Agencies			
ARRA - Title IA Grants to Local Educational Agencies - FY10	84.389	14,555	13,662
ARRA - Title IA Grants to Local Educational Agencies - FY11	84.389	22,806	22,806
<i>Total ARRA - Title IA Grants to Local Educational Agencies</i>		37,361	36,468
<i>Total Title I, Part A Cluster</i>		218,233	218,644
Education Technology State Grants			
Education Technology State Grants	84.318	648	573
Improving Teacher Quality State Grants			
Improving Teacher Quality State Grants - FY10	84.367	312	
Improving Teacher Quality State Grants - FY11	84.367	11,919	11,777
<i>Total Improving Teacher Quality State Grants</i>		12,231	11,777
School Improvement Grants			
School Improvement Grants - FY10	84.377	3,500	3,500
School Improvement Grants - FY11	84.377	10,500	7,660
<i>Total School Improvement Grants</i>		14,000	11,160
ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants- FY11			
ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants- FY11	84.394	93,869	93,869
Education Jobs			
Education Jobs	84.410	65,481	65,481
TOTAL U.S. DEPARTMENT OF EDUCATION		483,646	478,511
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		\$575,624	\$570,489

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Meadows Choice Community School (the School's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.



Dave Yost • 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
c/o Lucas County ESC
2275 Collingwood Boulevard
Toledo, Ohio 43620

To the Sponsor,

We have audited the financial statements of Meadows CHOICE Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2011, which comprise the School's basic financial statements and have issued our report thereon dated February 3, 2012, wherein we noted the School ceased operations as of June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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*.

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

We intend this report solely for the information and use of management, the School's sponsor, federal awarding agencies and pass-through entities, and others within the School. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 3, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Meadows CHOICE Community School
Lucas County
c/o Lucas County ESC
2275 Collingwood Boulevard
Toledo, Ohio 43620

To the Sponsor,

Compliance

We have audited the compliance of Meadows CHOICE Community School, Lucas County, Ohio (the School), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with these requirements.

As described in findings 2011-001 through 2010-002 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding Allowable Cost and Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals applicable to Title I major federal program. Compliance with these requirements is necessary, in our opinion, for the School to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Meadows CHOICE Community School complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as Finding 2011-003.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-001 through 2011-003 to be material weaknesses.

We intend this report solely for the information and use of management, the School's sponsor, others within the School, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

February 3, 2012

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified over Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals Qualified over Allowable Cost
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I – CFDA #84.010 ARRA Title I – CFDA #84.389 ARRA SFSF – CFDA #84.394
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Material Weakness - Questioned Costs

Finding Number	2011-001
CFDA Title and Number	Title I – CFDA #84.010 ARRA Title I – CFDA #84.389
Federal Award Number / Year	2011
Federal Agency	US Department of Education
Pass-Through Agency	Ohio Department of Education

2 CFR Part 225, Appendix B (8)(h)(4) establishes requirements for support of salaries and wages. Specifically, it requires employees who work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency.

For 36% of disbursements tested, there were no personnel activity reports or equivalent documentation maintained to support payroll charges to the Title I program.

Based on the non-compliance identified above, we are questioning \$15,658 in Title I grant expenditures.

We recommend the School utilize personal activity reports or equivalent documentation to support payroll changes to the Title I program.

2. Material Weakness/Noncompliance – Highly Qualified Teachers

Finding Number	2011-002
CFDA Title and Number	Title I – CFDA #84.010
Federal Award Number / Year	2011
Federal Agency	US Department of Education
Pass-Through Agency	Ohio Department of Education

Title I, Part A, Subpart I, SEC. 1119 (a) (1) requires each local educational agency receiving assistance under Title I part A to ensure that all teachers hired after such day and teaching in a program supported with funds under this part are highly qualified.

For 8% of disbursements tested, highly qualified teacher forms were not completed documenting highly qualified status.

Failure to complete and maintain highly qualified worksheets for teachers could result in the school being noncompliant with Title I Part A.

We recommend the School utilize highly qualified teacher forms for all Title I teachers.

3. Material Weakness/Noncompliance – Supplemental Educational Services

Finding Number	2011-003
CFDA Title and Number	Title I – CFDA #84.010
Federal Award Number / Year	2011
Federal Agency	US Department of Education
Pass-Through Agency	Ohio Department of Education

34 CFR 200.48 requires Local Education Agencies that do not meet its 20 percent obligation required for supplemental education services in a given school year to notify the State Educational Agency that it has met the exception criteria and intends to spend the remainder of its 20 percent obligation on other allowable activities, specifying the amount of that remainder.

The School spent less than twenty percent of the Title I allocation for supplemental education services and did not notify the State that it had met the exception criteria and intended to reallocate the funds.

Failure to notify the state of the reallocation of funds could result in the School spending money inconsistent with the program purpose.

We recommend the establishment of monitoring procedures to help ensure any Title I allocation exceptions are brought to the attention of the State Department of Education.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

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**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-01	School closed June 30, 2011. No Corrective Action to be taken.	None	Richard Cox, Treasurer
2011-02	School closed June 30, 2011. No Corrective Action to be taken.	None	Richard Cox, Treasurer
2011-03	School closed June 30, 2011. No Corrective Action to be taken.	None	Richard Cox, Treasurer

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Meadows CHOICE Community School
Lucas County
c/o Lucas County ESC
2275 Collingwood Boulevard
Toledo, Ohio 43620

To the Sponsor,

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Sponsor, solely to assist the Sponsor in evaluating whether Meadow CHOICE Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Sponsor. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In our report dated November 5, 2009, we noted the Board adopted an anti-harassment policy on September 9, 2009. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.

We inquired with the Board's management regarding the aforementioned policy. They stated they have not amended the September 9, 2009 policy. Therefore, the policy still lacks the following required by Ohio Rev. Code Section 3313.666:

- (1) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as amended by House Bill 19 of the 128th General Assembly.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Meadows CHOICE Community School
Lucas County
Independent Accountants' Report on
Applying Agreed Upon Procedures
Page 2

This report is intended solely for the information and use of the School's 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 "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 3, 2012



Dave Yost • Auditor of State

MEADOWS CHOICE COMMUNITY SCHOOL

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 8, 2012