



**Auditor of State
Betty Montgomery**

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

MODEL Community School
Lucas County
1615 Holland Road
Maumee, Ohio 43537-1622

To the Governing Board:

We have audited the accompanying basic financial statements of the MODEL Community School, Lucas County (the School), as of and for the year ended June 30, 2004, 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 financial position of the School, as of June 30, 2004, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2005, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 31, 2005

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of MODEL Community School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

- In total, net assets decreased \$2,038.
- Total assets increased \$4,077. This was primarily due to an increase in state foundation monies and Disadvantaged Pupil Instructional Aid.
- Liabilities increased \$6,115. Accrued wages and benefits increased by \$2,406. Accounts payable decreased by \$34,223.

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	\$ 83,208	\$ 69,101
Security Deposits	5,185	5,165
Capital Assets, Net	30,062	40,112
<i>Total Assets</i>	<u>118,455</u>	<u>114,378</u>

(Continued)

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

(Table 1) (Continued)
Net Assets

	2004	2003
Liabilities		
Current Liabilities	68,247	62,132
<i>Total Liabilities</i>	<u>68,247</u>	<u>62,132</u>
Net Assets		
Invested in Capital Assets	30,062	40,112
Unrestricted	20,146	12,134
<i>Total Net Assets</i>	<u>\$ 50,208</u>	<u>\$ 52,246</u>

Total assets increased \$4,077. This increase was primarily due to an increase in state foundation monies and Disadvantaged Pupil Instructional Aid. Equity in pooled cash and cash equivalents increased by \$23,237 from 2003. Intergovernmental Receivables decreased by \$34,525. This decrease was due to the timing of the receipt of some grants. Capital Assets, net of depreciation decreased by \$10,050.

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Foundation Payments	\$ 247,238	\$ 185,173
Disadvantaged Pupil Impact Aid	5,882	6,260
Special Education	916,138	721,173
Other	349	3,708
Non-Operating Revenues:		
Federal Grants	32,534	86,465
State Grants	59,320	79,565
Interest	186	441
Donations	11,740	18,543
Interest and Fiscal Charges		
<i>Total Revenues</i>	<u>1,273,387</u>	<u>1,101,328</u>

(Continued)

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

(Table 2) (Continued)
Change in Net Assets

	2004	2003
Operating Expenses		
Salaries	641,591	585,570
Fringe Benefits	206,686	149,890
Purchased Services	367,896	290,312
Materials and Supplies	36,560	60,361
Depreciation	11,867	15,365
Other Expenses	10,825	8,275
<i>Total Expenses</i>	1,275,425	1,109,773
<i>Decrease in Net Assets</i>	\$ (2,038)	\$ (8,445)

There was an increase in revenues of \$172,059 and an increase in expenses of \$165,652 from 2003. Of the increase in revenues, the foundation payments increased by \$62,065. Community Schools receive no support from tax revenues.

The expense for salaries increased by \$56,021 and the expense for fringe benefits increased by \$56,796 from 2003. This was primarily due to an increase in staff during fiscal year 2004. Material and supplies expense decreased by \$23,801 from 2003. Due to the decrease in federal and state subsidies, fewer supplies were purchased. Depreciation expense decreased by \$3,498.

Capital Assets

At the end of fiscal year 2004 the School had \$30,062, invested in furniture and equipment which represented a decrease of \$10,050 from 2003. Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)
Capital Assets at June 30, 2004
(Net of Depreciation)

	2004	2003
Furniture and Equipment	\$ 30,062	\$ 40,112

For more information on capital assets see Note 6 to the basic financial statements.

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 2003-2004 school year, there were approximately 44 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2004 amounted to \$5,058 per student.

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Ms. Mary Walters, Director at Model Community School, 1615 Holland Road, Maumee, Ohio 43537 or e-mail at autismschool@hotmail.com.

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 55,728
Accounts Receivables	117
Intergovernmental Receivables	243
Prepaid Items	27,120
<i>Total Current Assets</i>	<u>83,208</u>

Non-Current Assets:

Security Deposits	5,185
Capital Assets:	
Depreciable Capital Assets, Net	30,062
<i>Total Non-Current Assets</i>	<u>35,247</u>

<i>Total Assets</i>	<u>118,455</u>
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Liabilities

Current Liabilities:

Accounts Payable	1,752
Accrued Wages and Benefits	14,627
Intergovernmental Payable	51,868
<i>Total Current Liabilities</i>	<u>68,247</u>

Net Assets

Invested in Capital Assets	30,062
Unrestricted	20,146
<i>Total Net Assets</i>	<u>\$ 50,208</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating Revenues	
Foundation Payments	\$ 247,238
Disadvantaged Pupil Impact Aid	5,882
Special Education	916,138
Other Revenues	<u>349</u>
<i>Total Operating Revenues</i>	<u>1,169,607</u>
Operating Expenses	
Salaries	641,591
Fringe Benefits	206,686
Purchased Services	367,896
Materials and Supplies	36,560
Depreciation	11,867
Other	<u>10,825</u>
<i>Total Operating Expenses</i>	<u>1,275,425</u>
<i>Operating Loss</i>	<u>(105,818)</u>
Non-Operating Revenues and Expenses	
Federal Grants	32,534
State Grants	59,320
Interest	186
Contributions and Donations	<u>11,740</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>103,780</u>
<i>Change in Net Assets</i>	(2,038)
<i>Net Assets Beginning of Year</i>	<u>52,246</u>
<i>Net Assets End of Year</i>	<u><u>\$ 50,208</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents:

<u>Cash Flows from Operating Activities:</u>	
Cash Received from State of Ohio	\$ 1,169,762
Cash Received from Other Non-Operating Revenues	232
Cash Payments to Suppliers for Goods and Services	(454,158)
Cash Payments to Employees for Services	(639,185)
Cash Payments for Employee Benefits	<u>(187,903)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(111,252)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal Grants Received	65,060
State Grants Received	59,320
Contributions and Donations	<u>11,740</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>136,120</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	<u>(1,817)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(1,817)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest	<u>186</u>
<i>Net Cash Provided by Investing Activities</i>	<u>186</u>
<i>Net Increase in Cash and Cash Equivalents</i>	23,237
Cash and Cash Equivalents at Beginning of Year	<u>32,491</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 55,728</u></u>

(Continued)

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

**Reconciliation of Operating Loss to Net
Cash Provided by Operating Activities:**

Operating Loss	\$ (105,818)
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**Adjustments to Reconcile Operating Loss to
Net Cash used for Operating Activities**

Depreciation	11,867
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(117)
Decrease in Intergovernmental Receivable	1,979
Increase in Prepaid Items	(26,078)
Decrease in Security Deposits	800
Decrease in Accounts Payable	(34,233)
Increase in Accrued Wages and Benefits	2,406
Increase in Intergovernmental Payable	<u>37,942</u>

<i>Total Adjustments</i>	<u>(5,434)</u>
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<i>Net Cash used for Operating Activities</i>	<u><u>\$ (111,252)</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

MODEL 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 address the needs of students' ages 5 to 11 who are diagnosed with autism or anything within the spectrum of autism disorders. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under an initial contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing August of 1998 and has been renewed annually. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School (see Note 12).

The School operates under the direction of a nine-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 23 non-certified and 6 certificated full time teaching personnel who provide services to 44 students.

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 governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

E. Cash and Cash Equivalents

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

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

During the year ended 2004, investments were limited to repurchase agreements. Repurchase agreements are reported at cost.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in Capital Assets consists of capital assets, net of accumulated depreciation.

J. Operating Revenues and Expenses

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

K. Estimates

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

L. Security Deposits

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$5,185, is held by the lessor. (See Note 14)

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For 2004, the School has implemented GASB Statement No. 34, “Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments”, GASB No. 37 “Basic Financial Statements for State and Local Government: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”. At June 30, 2004, there was no effect on the financial statements as a result of implementing GASB 37 and 38 or on beginning net asset as previously reported as a result of implementing GASB 34.

GASB 34 creates new basic financial statements for reporting on the School’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provision of Statement No. 34, including the required content of Management’s Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards of modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 4 – DEPOSITS AND INVESTMENTS

At fiscal year end, the carrying amount of the School’s deposits was \$26,873, and the bank balance was \$50,861. The bank balance was covered by Federal Depository Insurance Corporation (FDIC)

Investments: The School’s investments are categorized to give an indication of the level of risk assumed by the School at fiscal year end. Category 1 includes investments insured or registered for which securities are held by the School or its agent in the School’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the School’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School’s name. The School’s investments totaling \$28,855 (reported amount and fair value), which are maintained in a Business Sweep Account (repurchase agreement), which are included in Category 3.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

<u>Receivables</u>	<u>Amounts</u>
Accounts	\$ 117
Intergovernmental:	
Title V '04 - Innovative Programs	200
Title IV '04	2
Title IID '04 - Technology	41
Total Intergovernmental Receivables	<u>\$ 243</u>
Total Receivables	<u><u>\$ 360</u></u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	<u>Balance 6/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ 77,066	\$ 1,817	\$ -	\$ 78,883
Total Capital Assets				
Being Depreciated	<u>77,066</u>	<u>1,817</u>	<u>-</u>	<u>78,883</u>
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	<u>(36,954)</u>	<u>(11,867)</u>	<u>-</u>	<u>(48,821)</u>
Total Accumulated Depreciation	<u>(36,954)</u>	<u>(11,867)</u>	<u>-</u>	<u>(48,821)</u>
Total Capital Assets				
Being Depreciated, Net	<u><u>\$ 40,112</u></u>	<u><u>\$ (10,050)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,062</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 2004, the School contracted with Cincinnati Insurance Company for general liability and property insurance and educational errors and omissions insurance.

Coverage is as follows:

Commercial General Liability per occurrence	\$ 1,000,000
Commercial General Liability aggregate	1,000,000
Commercial General Liability Personal and Advertising Injury	1,000,000
Teacher's Professional Liability per occurrence	1,000,000
Teacher's Professional Liability aggregate	1,000,000

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The School owns no property, but leases a facility located at 1615 Holland Road, Maumee, Ohio

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee, Medical, Dental, Vision, Prescription, and Life Benefits

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the fiscal year ended June 30, 2004, 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$30,140, \$24,107, and \$13,686, respectively; 100 percent has been contributed for fiscal years 2004, 2003, and 2002.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, 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, 2004, 2003, and 2002 were \$37,537, \$37,211, and \$26,861, respectively; 100 percent has been contributed for fiscal years 2004, 2003, and 2002.

NOTE 9 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$3,105 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

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LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$72,740.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 10 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 11 - CONTINGENCIES

A. Grants

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 a material adverse effect on the overall financial position of the School at June 30, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. ODE has conducted a review of the School's 2004 student enrollment data and FTE calculations. For fiscal year 2004, the results of this review resulted in an increase of \$3,722 which will be received by the school during the next fiscal year.

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

NOTE 12 – FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial 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 allotments paid to the School from the State of Ohio. The amount paid to Fiscal Agent for fiscal year 2004 totaled \$25,007 and a liability in the amount of \$2,163 was accrued for the year ended June 30, 2004.

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

- A. Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor's or any other Community School's funds;
- B. Maintain all books and accounts of all funds of the School;
- C. Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- D. Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. 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
- F. Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Director of the School so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 13 - PURCHASED SERVICES

For the period ended June 30, 2004 purchased service expenses were payments for services rendered, as follows:

**MODEL COMMUNITY SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Professional and Technical Services	\$ 261,878
Property Services	80,291
Travel Mileage/Meeting Expense	1,724
Communications	8,742
Contracted Craft or Trade Services	221
Utilities	15,040
Total Purchased Services	<u>\$ 367,896</u>

NOTE 14 - OPERATING LEASE

The School has entered into an operating lease, for the period September 1, 2003 through August 31, 2004, with the TEM Enterprises, Inc., to lease a school facility. The School has extended the lease term with TEM Enterprises through 2007. Lease payments in the amount of \$70,283 were made in fiscal year 2004. Per the lease agreement, a security deposit of \$5,185 was required to be paid at the signing of the agreement and is held by the lessor.

Year Ended June 30:	
2005	\$ 63,877
2006	62,492
2007	10,432
Total	<u>\$ 136,801</u>

NOTE 15 - SUBSEQUENT EVENT

In August of 2004, the School entered into a lease agreement with MT Business Leasing, Inc for the use of an Aficio copier. The lease starts on August 18, 2004 and terminates August 18, 2009 with a monthly payment of \$340.

On June 29, 2004, the School entered into a lease with 4848 Door, LLC to lease space at 4848 Door Street. The lease starts on August 22, 2004 and terminates August 21, 2007 with an annual lease payment of \$68,160.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

MODEL Community School
Lucas County
1615 Holland Road
Maumee, Ohio 43537-1622

To the Governing Board:

We have audited the financial statements of MODEL Community School, Lucas County, (the School) as of and for the year ended June 30, 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 31, 2005, in which we noted that the School adopted the provisions of Governmental Accounting Standards Board Statement No. 34. 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*.

MODEL Community School
Lucas County
Independent Accountants' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 31, 2005



**Auditor of State
Betty Montgomery**

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MODEL 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
JULY 12, 2005**