



**Auditor of State
Betty Montgomery**

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Meadows CHOICE Community School
Lucas County
1853 South Avenue
Toledo, Ohio 43609-2054

To the Governing Board:

We have audited the accompanying basic financial statements of the Meadows CHOICE Community School, Lucas County, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

February 8, 2005

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

The discussion and analysis of Meadows CHOICE Community School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 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 increased \$177,255. This increase was due to an increase in students and a related increase in state foundation monies and Disadvantaged Pupil Instructional Aid. There was also an increase in federal subsidies.
- Total assets increased \$211,991. This was primarily due to an increase in state foundation monies and Disadvantaged Pupil Instructional Aid. There was also an increase in federal subsidies.
- Liabilities increased \$34,736. Capitalized leases increased by \$23,016 due to leasing three new copiers. Accrued wages and benefits increased by \$4,880, while intergovernmental payables related to accrued pension benefits by \$5,770. Accounts payable increased by \$1,070. The increase in payables was primarily due to an increase in employees and a change in the payment method for the pension benefits. In fiscal year 2002, SERS benefits were paid directly by the School and in fiscal year 2003 the benefits were deducted from the state foundation payments made to the School. Since the amounts deducted from the foundation payments are allocated through December 31, the accrual for the pension benefit liability at June 30 is for the period through December 31, making it larger than with the direct payment method.

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:

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

Table 1
Net Assets

	2004	2003
Assets		
Current Assets	\$ 240,841	\$ 51,830
Security Deposits	4,000	-
Capital Assets, Net	27,228	8,248
<i>Total Assets</i>	<u>272,069</u>	<u>60,078</u>
Liabilities		
Current Liabilities	79,757	68,556
Non-Current Liabilities	23,535	-
<i>Total Liabilities</i>	<u>103,292</u>	<u>68,556</u>
Net Assets		
Invested in Capital Assets	3,693	-
Restricted	-	-
Unrestricted	165,084	(8,478)
<i>Total Net Assets</i>	<u>\$ 168,777</u>	<u>\$ (8,478)</u>

Total assets increased \$211,991. This increase was primarily due to an increase in federal and state subsidies. Equity in pooled cash and cash equivalents increased by \$156,742 from 2003. Intergovernmental Receivables increased by \$25,533. This increase was due to the timing of the receipt of some grants. In fiscal year 2003, the receipts from these grants were received in fiscal year 2004. Capital Assets, net of depreciation increased by \$18,980.

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
Revenues		
Operating Revenues:		
Foundation Payments	\$ 329,042	\$ 290,915
Disadvantaged Pupil Impact Aid	20,200	-
Special Education	472,508	363,829
Food Services	1,782	-
Classroom Fees	75	-
Other	6,329	4,549

(Continued)

**MEADOWS CHOICE 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
Non-Operating Revenues:		
Federal Grants	85,440	49,581
State Grants	77,130	70,044
Interest	313	101
Donations	172	234
Interest and Fiscal Charges	(949)	(147)
<i>Total Revenues</i>	994,046	781,109
Expenses		
Operating Expenses		
Salaries	354,217	319,156
Fringe Benefits	112,946	101,362
Purchased Services	283,237	238,710
Materials and Supplies	41,022	9,343
Cost of Sales	-	-
Depreciation	9,789	11,842
Other Expenses	13,576	2,403
Non-Operating Expenses:		
Loss on Sale of Capital Assets	-	-
<i>Total Expenses</i>	814,787	682,816
<i>Increase in Net Assets</i>	\$ 179,259	\$ 98,293

There was an increase in revenues of \$212,936 and an increase in expenses of \$131,971 from 2003. Of the increase in revenues, the foundation payments increased by \$38,127. Community Schools receive no support from tax revenues.

The expense for salaries increased by \$35,061 and the expense for fringe benefits increased by \$11,584 from 2003. This was primarily due to an increase in staff during fiscal year 2003. Material and supplies expense increased by \$31,679 from 2003. Due to the increase in federal subsidies and state foundation revenues, more supplies were purchased. Depreciation expense decreased by \$2,053.

Capital Assets

At the end of fiscal year 2004 the School had \$27,228, invested in furniture and equipment, and capital leases, which represented an increase of \$18,461 from 2003. Table 3 shows fiscal year 2004 and fiscal year 2003:

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

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

	2004	2003
Furniture and Equipment	\$ 5,157	\$ 8,248
Capital Lease	22,071	519
Totals	<u>\$ 27,228</u>	<u>\$ 8,767</u>

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

Debt

At June 30, 2004 the School had \$23,535 in Capital Leases Payable, \$4,436 of which is due within one year. Table 4 summarizes Capital Leases outstanding.

Table 4
Outstanding Debt, at Year End

	2004	2003
Capital Leases	\$ 23,535	\$ 519
Total Outstanding Debt	<u>\$ 23,535</u>	<u>\$ 519</u>

Current Financial Issues

The School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2003-2004 school year, there were approximately 59 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.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Ellin Blick, Director at Meadows CHOICE Community School, 1853 South Avenue, Toledo, Ohio 43609 or e-mail at ellinblick@aol.com.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 194,133
Accounts Receivables	15
Intergovernmental Receivables	34,072
Prepaid Items	12,621
<i>Total Current Assets</i>	240,841

Non-Current Assets:

Security Deposits	4,000
Depreciable Capital Assets, Net	27,228
<i>Total Non-Current Assets</i>	31,228
<i>Total Assets</i>	272,069

Liabilities

Current Liabilities:

Accounts Payable	2,839
Accrued Wages and Benefits	58,866
Intergovernmental Payable	18,052
<i>Total Current Liabilities</i>	79,757

Non-Current Liabilities:

Due Within One Year	4,436
Due In More Than One Year	19,099
<i>Total Non-Current Liabilities</i>	23,535
<i>Total Liabilities</i>	103,292

Net Assets

Invested in Capital Assets, Net of Related Debt	3,693
Unrestricted	165,084
<i>Total Net Assets</i>	\$ 168,777

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

	Enterprise
Operating Revenues	
Foundation Payments	\$ 329,042
Disadvantaged Pupil Impact Aid	20,200
Special Education	472,508
Food Services	1,782
Classroom Fees	75
Other Revenues	6,329
<i>Total Operating Revenues</i>	829,936
Operating Expenses	
Salaries	354,217
Fringe Benefits	112,946
Purchased Services	283,237
Materials and Supplies	41,022
Depreciation	9,789
Other	13,576
<i>Total Operating Expenses</i>	814,787
<i>Operating Income</i>	15,149
Non-Operating Revenues and Expenses	
Federal Grants	85,440
State Grants	77,130
Interest	313
Contributions and Donations	172
Interest and Fiscal Charges	(949)
<i>Total Non-Operating Revenues and Expenses</i>	162,106
<i>Change in Net Assets</i>	177,255
Net Assets Beginning of Year	(8,478)
<i>Net Assets End of Year</i>	\$ 168,777

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

<u>Cash Flows from Operating Activities:</u>	
Cash Received from State of Ohio	\$ 804,906
Cash Received for Food Services	1,782
Cash Received from Classroom Fees	75
Cash Received from Other Non-Operating Revenues	6,329
Cash Payments to Suppliers for Goods and Services	(346,061)
Cash Payments to Employees for Services	(352,310)
Cash Payments for Employee Benefits	(97,199)
<i>Net Cash Used for Operating Activities</i>	<u>17,522</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Federal Subsidies Received	68,307
State Subsidies Received	77,130
Contributions and Donations	172
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>145,609</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	(3,425)
Principal Payments	(2,328)
Interest Payments	(949)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(6,702)</u>
 <u>Cash Flows from Investing Activities:</u>	
Interest	313
<i>Net Cash Provided by Investing Activities</i>	<u>313</u>
 <i>Net Increase in Cash and Cash Equivalents</i>	 156,742
Cash and Cash Equivalents at Beginning of Year	<u>37,391</u>
 <i>Cash and Cash Equivalents at End of Year</i>	 <u><u>\$ 194,133</u></u>

(Continued)

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

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

Operating Income	\$ 15,149
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	9,789
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(15)
Increase in Intergovernmental Receivable	(8,400)
Increase in Prepaid Items	(6,721)
Increase in Security Deposits	(4,000)
Increase in Accounts Payable	1,070
Increase in Accrued Wages and Benefits	4,880
Increase in Intergovernmental Payable	5,770
	<hr/>
<i>Total Adjustments</i>	<u>2,373</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 17,522</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Meadows CHOICE (Center for Habilitation Options Insuring Children's Education) Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School's objective is to provide an innovative, holistic approach to life-skill development through education, medical interface, clinical therapy, and collaboration with the community's stakeholders, to youths ages 11 through 14, with multi-handicapped, behavioral problems, developmental disorders, and/or learning disabilities. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under an initial contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 24, 1998 and has been renewed annually. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School (see Note 12).

The School operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 10 non-certified and 5 certificated full time teaching personnel which includes 1 administrator, 4 teachers who provide services to 59 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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

All monies received by the School are accounted for by the 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 balance sheet, 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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the year ended 2004 totaled \$984,320.

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. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

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 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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

L. Security Deposits

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$4,000, is held by the lessor. (See Note 15)

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 fund balance 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

At fiscal year end, the carrying amount of the School's deposits was \$23,383, and the bank balance was \$36,299. 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 \$170,750 (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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

A summary of the principal items of receivables follows:

Receivables	Amounts
Accounts	\$ 15
Intergovernmental:	
FY '04 SB - 2 DPIA	16,844
Title I '04 - Targeted Assistance	14,686
Title V '04 - Innovative Programs	540
Title IV '04	484
Title IIA '04	482
Title IID '04 - Technology	1,036
<i>Total Intergovernmental Receivables</i>	34,072
<i>Total Receivables</i>	\$ 34,087

NOTE 6 – CAPITAL ASSETS

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

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ 53,359	\$ 3,425	\$ -	\$ 56,784
Capital Leases	7,390	25,344	-	32,734
Total Capital Assets	60,749	28,769	-	89,518
Being Depreciated	60,749	28,769	-	89,518
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(45,111)	(6,516)	-	(51,627)
Capital Leases	(7,390)	(3,273)	-	(10,663)
Total Accumulated Depreciation	(52,501)	(9,789)	-	(62,290)
Total Capital Assets				
Being Depreciated, Net	\$ 8,248	\$ 18,980	\$ -	\$ 27,228

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

Coverages are as follows:

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

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

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 \$16,454, \$12,452 and \$8,146, respectively; 90.25 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003. \$2,471 represents the unpaid contribution for fiscal year 2004. The balance outstanding is reflected as an intergovernmental payable.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

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 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 \$22,268, \$21,922 and \$20,827, respectively; 98.43 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003.

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

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 \$1,713 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.

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 \$22,597.

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 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 \$1,340 that is not recorded on the financial statements.

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 \$17,320 and a liability in the amount of \$1,634 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:

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor's or any other Community School's funds;
- Maintain all books and accounts of all funds 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;

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other Community School; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Director of the School so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 13 – PURCHASED SERVICES

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

Professional and Technical Services	\$ 36,945
Property Services	234,590
Travel Mileage/Meeting Expense	2,627
Communications	8,382
Contracted Craft or Trade Services	464
Tuition	229
Total Purchased Services	<u>\$ 283,237</u>

NOTE 14 – CAPITALIZED LEASE – LESSEE DISCLOSURE

During fiscal year 1999, Meadows entered into a capitalized lease for a copier. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date. Payments made totaled \$376 for the year.

In August of 2003 and June of 2004, the School entered into new capitalized leases for three copiers with MT Business Technologies, Inc. These leases have also been recorded at the present value of the future minimum lease payments as of inception date. Payments made totaled \$2,750 for the year.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

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

<u>Fiscal Year Ending, June 30,</u>		
2005	\$	6,216
2006		6,216
2007		6,216
2008		6,216
2009		3,466
Total		<u>28,330</u>
Less: amount representing interest		<u>(4,795)</u>
Present value of minimum lease payments	\$	<u><u>23,535</u></u>

NOTE 15 – OPERATING LEASE

The School has entered into an operating lease, for the period August 1, 2003 through July 31, 2004, with the Bethel Lutheran Church, to lease classroom space to house the School, in the amount of \$5,650 per month. Rent payments in the amount of \$62,150 were made in fiscal year 2004. 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 16 – SUBSEQUENT EVENT

On August 1, 2004, the School renegotiated an operating lease, for the period August 1, 2004 through July 31, 2005, with Bethel Lutheran Church, to lease space to house the School, in the amount of \$6,144 per month. The lessor holds a security deposit in the amount of \$4,000.

NOTE 17 – RELATED PARTY TRANSACTION

During the year, the School's Governing Board entered into a one-year employment contract with a paraprofessional, Kathy Dodson. The paraprofessional's spouse, Casey Dodson is a member of the Governing Board. Total payments to the paraprofessional were \$16,950, which is the spouse's salary.

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**Auditor of State
Betty Montgomery**

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

Meadows CHOICE Community School
Lucas County
1853 South Avenue
Toledo, Ohio 43609-2054

To the Governing Board:

We have audited the basic financial statements of Meadows CHOICE Community School, Lucas County, (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 8, 2005. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated February 8, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 8, 2005.

This report is intended for the information and use of management, 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

February 8, 2005

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Deficiencies in Grant Accounting and Reporting	Yes	
2003-002	ORC 3314.03(11)(b) – Liability Insurance	No	Partially corrected. Reissued as management letter comment, the School did obtain insurance but not adequate insurance coverage per sponsorship agreement



**Auditor of State
Betty Montgomery**

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800-282-0370
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**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 22, 2005**