



**VAIL MEADOWS CHOICE
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**VAIL MEADOWS CHOICE
TABLE OF CONTENTS**

TITLE	PAGE
Report of Independent Accountants	1
Balance Sheet - As of June 30, 2000	3
Statement of Revenues, Expenses, and Changes in Retained Earnings – For the Fiscal Year Ended June 30, 2000	4
Statement of Cash Flows - For the Fiscal Year Ended June 30, 2000	5
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Vail Meadows CHOICE
Lucas County
6118 Cedar Point Road
Oregon, Ohio 43618-9779

To the Governing Board:

We have audited the Balance Sheet of Vail Meadows CHOICE (Meadows) as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2000. These financial statements are the responsibility of Meadows' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 financial statements referred to above present fairly, in all material respects, the financial position of Meadows as of June 30, 2000, and the results of operations and its cash flows for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2001 on our consideration of Meadows' 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.

Jim Petro
Auditor of State

January 25, 2001

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**VAIL MEADOWS CHOICE
BALANCE SHEET
AS OF JUNE 30, 2000**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$19,258
Intergovernmental Receivables	12,486
Prepaid Items	<u>6,356</u>
Total Current Assets	38,100

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>51,116</u>
Total Assets	<u><u>\$89,216</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$10,880
Accrued Wages	29,917
Intergovernmental Payable	7,099
Capital Leases Payable	<u>1,632</u>
Total Current Liabilities	49,528

Long-Term Liabilities

Capital Leases Payable, net of current portion	<u>4,269</u>
Total Liabilities	53,797

Fund Equity

Retained Earnings	
Unreserved	<u>35,419</u>
Total Liabilities and Fund Equity	<u><u>\$89,216</u></u>

The notes to the financial statements are an integral part of this statement.

**VAIL MEADOWS CHOICE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Operating Revenues

Foundation Payments	\$106,195
Disadvantaged Pupil Impact Aid	429,853
Miscellaneous	549
	<hr/>
Total Operating Revenues	536,597

Operating Expenses

Salaries	299,992
Fringe Benefits	91,312
Purchased Services	343,255
Materials and Supplies	2,092
Depreciation	12,500
Other Operating Expenses	2,846
	<hr/>
Total Operating Expenses	751,997
Operating Loss	<hr/> (215,400)

Non-Operating Revenues (Expenses)

Operating Grants - State	3,151
Operating Grants - Federal	6,671
Operating Grant Repayment	(8,947)
Interest Earnings	4,469
Interest Expense and Fiscal Charges	(620)
Miscellaneous Non-Operating Expense	(1,489)
	<hr/>
Total Non-Operating Revenues (Expenses)	3,235
Net Loss	(212,165)
Retained Earnings at Beginning of Year	<hr/> 247,584
Retained Earnings at End of Year	<hr/> <hr/> \$35,419

The notes to the financial statements are an integral part of this statement.

**VAIL MEADOWS CHOICE
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State Foundation	\$209,786
Cash Received from Disadvantaged Pupil Impact Aid	430,165
Cash Received from Other Sources	539
Cash Received from Classroom Materials and Fees	10
Cash Payments to Suppliers for Goods and Services	(381,669)
Cash Payments to Employees for Services	(289,889)
Cash Payments for Employee Benefits	<u>(91,616)</u>
Net Cash Used for Operating Activities	<u>(122,674)</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received - State	3,151
Operating Grants Received - Federal	<u>6,671</u>
Net Cash Provided by Noncapital Financing Activities	<u>9,822</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(10,263)
Principal Payments	(1,489)
Interest Payments	<u>(620)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(12,372)</u>

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>4,469</u>
Net Cash Provided by Investing Activities	<u>4,469</u>
Net Decrease in Cash and Cash Equivalents	(120,755)
Cash and Cash Equivalents at the Beginning of the Year	<u>140,013</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$19,258</u></u>

(Continued)

**VAIL MEADOWS CHOICE
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

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

Operating Loss (\$215,400)

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

Depreciation 12,500

Changes in Assets and Liabilities:

Increase in Prepaid Items (6,356)

Decrease in Intergovernmental Receivable 91,417

Decrease in Accounts Payable (9,626)

Decrease in Contracts Payable (3,519)

Increase in Accrued Wages Payable 10,103

Decrease in Intergovernmental Payable (304)

Decrease in Capital Leases Payable (1,489)

Total Adjustments 92,726

Net Cash Used for Operating Activities (\$122,674)

The notes to the financial statements are an integral part of this statement.

**VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Vail Meadows CHOICE (Center for Habilitation Options Insuring Children's Education) (Meadows) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Meadows 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 Meadows' tax-exempt status. Meadows' 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. Meadows, 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. Meadows may acquire facilities as needed and contract for any services necessary for the operation of the school.

Meadows was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 24, 1998. The Sponsor is responsible for evaluating the performance of Meadows 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 Vail Meadows CHOICE (see note 12).

Meadows operates under the direction of an four-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 Meadows' one instructional/support facility staffed by 12 non-certified and 5 certificated full time teaching personnel who provide services to 38 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Meadows 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. Meadows also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of Meadows' accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its 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 balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. 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 Meadows' contract with its Sponsor. The contract between Meadows 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.

D. Cash and Cash Equivalents

All monies received by Meadows are accounted for by Meadows' fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in Meadows' name. Monies for all funds of Meadows are maintained in these accounts or temporarily used to purchase short-term investments. For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased by Meadows are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. Meadows 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 capitalized.

Depreciation of furniture and equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of five years.

VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

F. Intergovernmental Revenues

Meadows 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 they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year the services are consumed.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investment by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2000, the carrying amount of Meadows' deposits was \$17,571 and the bank balance was \$40,623. The bank balance was covered by federal depository insurance.

Meadows' investments are categorized to give an indication of the level of risk assumed by Meadows at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by Meadows or its agent in Meadows' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in Meadows' 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 Meadows' name. Meadows' investments totaling \$1,687 (cost), which are maintained in a Ready Resource Savings Account (repurchase agreement) are included in Category 2.

4. RECEIVABLES

Receivables at June 30, 2000 are due from the Lucas County Educational Service Center. All intergovernmental receivables are considered collectible in full, due to the stable condition of the fiscal agent.

5. FIXED ASSETS

A summary of Meadows' fixed assets at June 30, 2000, follows:

Furniture and Equipment	\$ 58,661
Leasehold Improvements	9,740
Less: accumulated depreciation	<u>(17,285)</u>
Net Fixed Assets	<u><u>\$ 51,116</u></u>

VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

6. RISK MANAGEMENT

A. Property and Liability

Meadows 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. For the fiscal year 2000, Meadows contracted with Nationwide Ohio Educational Liability Insurance for property and general liability insurance.

Professional liability is protected by Nationwide Ohio Educational Liability Insurance with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

B. Workers' Compensation

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

C. Employee Medical, Dental, and Vision Benefits

Meadows has contracted with its Sponsor, to provide employee medical and vision insurance to its full time employees who work 40 or more hours per week. Meadows has contracted through a private carrier to provide coverage for dental insurance.

7. DEFINED BENEFIT PENSION PLANS

A. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose The Social Security System. As of June 30, 2000, Meadows has no employees or members of the governing board which contribute to the Social Security System.

B. School Employees Retirement System

Meadows contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

Plan members are required to contribute 9 percent of their annual covered salary and Meadows is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2000. For fiscal year 1999, 7.7 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. Meadows' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2000 and 1999 were \$7,868 and \$6,961, respectively; 90.84 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. The unpaid contribution for fiscal year 2000, in the amount of \$793 is recorded as a liability.

C. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and Meadows is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 2000. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Meadows' required contribution for pension obligations to STRS for fiscal years ended June 30, 2000 and 1999 were \$ 8,811 and \$8,086, respectively; 92.33 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. The unpaid contribution for fiscal year 2000, in the amount of \$1,510 is recorded as a liability.

8. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2000, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For Meadows, this amount equaled \$11,748 for fiscal year 2000.

VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,783 million at June 30, 1999 (the latest information available). For the fiscal year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000, and STRS had 95,796 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. 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 2000, the minimum pay has been established at \$12,400. For Meadows, the amount to fund health care benefits, including the surcharge, was \$13,728 for fiscal year 2000.

9. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to Meadows. During the fiscal period ended June 30, 2000, Meadows recognized \$106,195 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly....," including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, Meadows is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

10. CONTINGENCIES

Grants

Meadows 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 funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Meadows at June 30, 2000.

11. CAPITALIZED LEASES - 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.

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, 2000.

<u>Fiscal Year Ending June 30,</u>		
2001	\$	2,109
2002		2,108
2003		2,108
2004		<u>527</u>
Total minimum lease payments		6,852
Less: amount representing interest		<u>(951)</u>
Present value of minimum lease payments	\$	<u><u>5,901</u></u>

12. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Vail Meadows CHOICE. As part of this agreement, Meadows shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to Meadows from the State of Ohio.

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

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

**VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

3. Maintain all financial records of all state funds of Meadows and follow State Auditor procedures for receiving and expending state funds;
4. Assist Meadows in meeting all financial reporting requirements established by the Auditor of Ohio;
5. Invest funds of Meadows 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
6. Pay obligations incurred by Meadows within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the school so long as the proposed expenditure is within the approved budget and funds are available.

13. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2000, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES

Transportation Expense	\$	141,300
Rent Expense		113,644
Consultation Services		20,000
Therapeutic Riding Center Services		17,664
Special Education Services		14,909
Fiscal Agent Services		12,486
Building Maintenance, Repair & Other Property Services		9,010
Audit Services		6,240
Communications Expense		3,177
Legal Services		2,682
Copier Expense		1,129
Other General/Administrative Expense		456
Utilities Expense		354
Background/Fingerprinting Expense		204
		<hr/>
Total Purchased Services	\$	<u><u>343,255</u></u>

VAIL MEADOWS CHOICE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

14. OPERATING LEASE

Meadows entered into a lease for the period October 19, 1999 through August 31, 2000 with "Vail Meadows Therapeutic Riding Center" to lease space to house the Meadows Community School. Payments made totaled \$120,000 for the fiscal year. Meadows has the option to renew the lease for additional one-year terms, with the revised rent, if any, to be negotiated in good faith.

15. MANAGEMENT'S PLANS REGARDING OPERATING LOSS

Meadows had an operating loss of \$215,400 for the fiscal year ended June 30, 2000 due to the timing of cash flows. Timing of those cash flows relate to costs associated with operating a new and unique community school. Management plans to eliminate the loss with the following actions:

- A) Meadows has been awarded a Charter School Federal Sub-Grant to be passed through the Ohio Department of Education for the years ended June 30, 2001 and 2002. The grant agreement provides that Meadows will receive \$100,000 during these years, of which \$50,000 is earmarked for operational costs, and \$50,000 is earmarked for transportation expenses.
- B) Meadows has applied for grants from various state departments.
- C) Meadows has received notification from the Ohio Department of Education that it will receive a \$61,000 transportation reimbursement as part of its School Foundation support during year 2001.
- D) Management of Meadows is looking to renegotiate it's rental agreement or possibly moving it's facilities to allow for an expansion of the student base.

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Vail Meadows CHOICE
Lucas County
6118 Cedar Point Road
Oregon, Ohio 43618-9779

To the Governing Board:

We have audited the financial statements of Vail Meadows CHOICE (Meadows) for the fiscal year ended June 30, 2000, and have issued our report thereon dated January 25, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 Meadows' 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 an immaterial instance of noncompliance that we have reported to management of Meadows in a separate letter dated January 25, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Meadows' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 Meadows in a separate letter dated January 25, 2001.

Vail Meadows CHOICE
Lucas County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

January 25, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VAIL MEADOWS CHOICE

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 27, 2001**