



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MEADOWS CHOICE COMMUNITY SCHOOL

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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

Meadows CHOICE Community School
Lucas County
Shuer Center
4955 Seaman Road
Oregon, Ohio 43616

To the Governing Board:

We have audited the Balance Sheet of Meadows CHOICE Community School (Meadows) as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings/Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2001. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Meadows as of June 30, 2001, and the results of operations and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming Meadows will continue as a going concern. As shown in the financial statements, Meadows has incurred an operating loss in the amount of \$288,883 for the year ended June 30, 2001, has a working capital deficiency of \$158,063 as of June 30, 2001, and an accumulated deficit of \$127,225. Accordingly, there is substantial doubt about Meadows' ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2002, 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

March 21, 2002

MEADOWS CHOICE COMMUNITY SCHOOL

BALANCE SHEET
AS OF JUNE 30, 2001

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$13,709
Intergovernmental Receivables	4,480
Prepaid Items	<u>202</u>
Total Current Assets	<u>18,391</u>

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>33,318</u>
Total Assets	<u><u>\$51,709</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$115,588
Accrued Wages	49,485
Intergovernmental Payable	9,592
Capital Leases Payable	<u>1,789</u>
Total Current Liabilities	<u>176,454</u>

Long-Term Liabilities

Capital Leases Payable	<u>2,480</u>
Total Liabilities	<u>178,934</u>

Fund Equity

Accumulated Deficit	<u>(127,225)</u>
Total Liabilities and Fund Equity	<u><u>\$51,709</u></u>

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

MEADOWS CHOICE COMMUNITY SCHOOL

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/ACCUMULATED DEFICIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Operating Revenues

Foundation Payments	\$408,882
Disadvantaged Pupil Impact Aid	180,714
Other Operating Revenues	<u>2,769</u>
Total Operating Revenues	<u>592,365</u>

Operating Expenses

Salaries	343,145
Fringe Benefits	108,622
Purchased Services	401,268
Materials and Supplies	10,740
Depreciation	12,729
Other Operating Expenses	<u>4,744</u>
Total Operating Expenses	<u>881,248</u>
Operating Loss	<u>(288,883)</u>

Non-Operating Revenues (Expenses)

Grants - State	69,904
Grants - Federal	62,135
Contributions and Donations	600
Interest Earnings	1,869
Loss on Abandonment of Leasehold Improvements	(7,792)
Interest and Fiscal Charges	<u>(477)</u>
Total Non-Operating Revenues (Expenses)	<u>126,239</u>
Net Loss	(162,644)
Retained Earnings at Beginning of Year	<u>35,419</u>
Accumulated Deficit at End of Year	<u><u>(\$127,225)</u></u>

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

MEADOWS CHOICE COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State Foundation	\$408,882
Cash Received from Disadvantaged Pupil Impact Aid	180,714
Cash Received from Other Operating Sources	2,769
Cash Payments to Suppliers for Goods and Services	(280,939)
Cash Payments to Employees for Services	(323,577)
Cash Payments for Employee Benefits	(106,129)
Cash Payments for Other Operating Uses	<u>(3,518)</u>
Net Cash Used for Operating Activities	<u>(121,798)</u>

Cash Flows from Noncapital Financing Activities

Grants Received - State	69,904
Grants Received - Federal	48,708
Contributions and Donation	<u>600</u>
Net Cash Provided by Noncapital Financing Activities	<u>119,212</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(2,723)
Principal Payments	(1,632)
Interest Payments	<u>(477)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(4,832)</u>

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>1,869</u>
Net Cash Provided by Investing Activities	<u>1,869</u>
Net Decrease in Cash and Cash Equivalents	(5,549)
Cash and Cash Equivalents at the Beginning of the Year	<u>19,258</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$13,709</u></u>

(Continued)

MEADOWS CHOICE COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)

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

Operating Loss (\$288,883)

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

Depreciation	12,729
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	6,154
Decrease in Intergovernmental Receivable	12,486
Increase in Accounts Payable	113,655
Increase in Accrued Wages Payable	19,568
Increase in Intergovernmental Payable	<u>2,493</u>
Total Adjustments	<u>167,085</u>
Net Cash Used for Operating Activities	<u><u>(\$121,798)</u></u>

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

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Meadows CHOICE (Center for Habilitation Options Insuring Children's Education) Community School (Meadows), formerly known as "Vail Meadows CHOICE Community School," 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 Meadows (see note 12).

Meadows operates under the direction of a 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 6 certificated full-time teaching personnel who provide services to 39 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 a governmental nonprofit organization. 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.

MEADOWS CHOICE COMMUNITY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. 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 Meadows is maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities 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 is computed using the straight-line method over an estimated useful life of five years.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 all eligibility requirements have been met.

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

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

Amounts awarded under the above named programs for the 2001 school year totaled \$721,635.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, 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 in which services are consumed.

H. Estimates

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

3. ACCOUNTABILITY AND COMPLIANCE

Accumulated Deficit and Operating Loss

Meadows is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating losses. See Note 19.

4. 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, 2001, the carrying amount of Meadows' deposits was \$13,709 and the bank balance was \$22,154. The bank balance was covered by federal depository insurance.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2001, consisted of intergovernmental (e.g., federal grants) receivables. All intergovernmental receivables are considered collectable in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

6. FIXED ASSETS

A summary of Meadows' fixed assets, at June 30, 2001, follows:

Furniture and Equipment	\$61,384
Less: Accumulated Depreciation	<u>(28,066)</u>
Net Fixed Assets	<u><u>\$33,318</u></u>

7. 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 fiscal year 2001, Meadows contracted with Agribusiness Insurance Company for property and general liability insurance.

Professional liability is protected by Agribusiness Insurance Company, with a \$2,000,000 single occurrence limit and a \$5,000,000 aggregate limit, with 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.

8. DEFINED BENEFIT PENSION PLANS

A. 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 established 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.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

A. School Employees Retirement System (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; 4.2 percent was the portion used to fund pension obligations for the fiscal year 2001. For fiscal year 2000, 5.5 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, 2001, 2000, and 1999 were \$7,030, \$7,868, and \$6,961, respectively; 81.10 percent has been contributed for fiscal year 2001, and 100 percent has been contributed for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$4,625, is recorded as a liability.

B. 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. The 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; 9.5 percent was the portion used to fund pension obligations for the year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. 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 the fiscal years ended June 30, 2001, 2000, and 1999, were \$14,589, \$8,811, and \$8,086, respectively; 86.35 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$3,159, is recorded as a liability.

9. POSTEMPLOYMENT BENEFITS

Meadows provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 funded on a pay-as-you-go basis.

MEADOWS CHOICE COMMUNITY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

9. POSTEMPLOYMENT BENEFITS (continued)

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 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Meadows, this amount equaled \$6,911 during the year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000, and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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.

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay has been established at \$12,400. For Meadows, the amount to fund health care benefits, including surcharge, equaled \$18,116 for fiscal year 2001.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340, and the target level was \$211 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental and Vision Benefits

Meadows has contracted through the Lucas County Educational Service Center to provide employee medical and vision insurance to its full-time employees. Meadows has contracted through a private carrier to provide coverage for dental insurance.

11. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

11. STATE SCHOOL FUNDING DECISION (continued)

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of March 21, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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

12. CONTINGENCIES

A. 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, 2001.

B. Ohio Community School Program

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community [i.e. Charter] Schools Program violates the state's Constitution and state laws. The effect of this suit, if any, on Meadows is not presently determinable.

C. School Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of said review, Meadows state foundation funding will decrease by \$1,941 for the fiscal year 2002.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

13. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2001, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES

Professional and Technical Services	\$214,124
Property Services	174,911
Fiscal Agent Services	7,881
Communications	3,659
Meeting Expenses	<u>693</u>
Total Purchased Services	<u><u>\$401,268</u></u>

14. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Meadows CHOICE Community School. 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 Meadows:

- A. Maintain custody of all funds received by Meadows 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 Meadows;
- C. Maintain all financial records of all state funds of Meadows and follow State Auditor procedures for receiving and expending state funds;
- D. Assist Meadows in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. 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
- F. 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 Meadows so long as the proposed expenditure is within the approved budget and funds are available.

MEADOWS CHOICE COMMUNITY SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

15. CAPITALIZED LEASE

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 \$2,109 for the fiscal 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, 2001.

<u>Fiscal Year Ending June 30,</u>	
2002	\$2,108
2003	2,108
2004	<u>527</u>
Total minimum lease payments	4,743
Less: amount representing interest	<u>(474)</u>
Present value of minimum lease payments	<u><u>\$4,269</u></u>

16. OPERATING LEASE

Meadows renewed its lease for the period September 1, 2000 through August 31, 2001 with "Vail Meadows Therapeutic Riding Center" to lease space to house Meadows CHOICE Community School. Payments made totaled \$100,000 for the fiscal year. In June 2001, in accordance with terms of the lease agreement, Meadows exercised its option to cancel the lease.

17. ABANDONMENT OF LEASEHOLD IMPROVEMENTS

In June 2001, in accordance with cancellation of its lease agreement (see note 18), Meadows abandoned certain leasehold improvements, with a book value of \$7,792, resulting in a non-operating expense.

18. SUBSEQUENT EVENTS

Vail Meadows Therapeutic Riding Center has filed a lawsuit against Meadows for cancellation of a lease agreement (see note 17), utility bills, and therapeutic services. Meadows disputes a certain portion of the lease balance and the utility bills, totaling \$65,824. As of the date of the financial statements, management is unable estimate the likelihood of an outcome or the amount or range of potential loss.

Meadows has entered into a lease, for the period August 1, 2001 through July 31, 2002, with the Lucas County Educational Service Center, to lease classroom space to house Meadows CHOICE Community School, in the amount of \$7,000 per month. Meadows has the option to renew the lease for additional one-year terms.

MEADOWS CHOICE COMMUNITY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

19. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT (SEE NOTE 3)

Meadows accumulated a deficit of \$127,225 for the year ended June 30, 2001, and had an operating loss of \$288,883. Meadows is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating loss. Management plans to eliminate the deficit and operating losses with the following actions:

- A. Meadows moved operation of its school facility to a new location. The move will result in annual savings of \$36,000. Also, management of Meadows believes the new location will allow for expansion of its student population base, and hence, increase school foundation support.
- B. Meadows has applied for grants from various state departments.
- C. Management of Meadows is reviewing procedures to reduce its heavy transportation costs.
- D. Management of Meadows changed dental insurance carriers and purchased an employer non-contributory policy.



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***

Meadows CHOICE Community School
Lucas County
Shuer Center
4955 Seaman Road
Oregon, Ohio 43616

To the Governing Board:

We have audited the financial statements of Meadows CHOICE Community School (Meadows) for the fiscal year ended June 30, 2001, and have issued our report thereon dated March 21, 2002. Our report expressed substantial doubt as to the ability of Meadows to continue as a going concern. 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.

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 a immaterial instance of noncompliance that we have reported to management of Meadows in a separate letter dated March 21, 2002.

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 March 21, 2002.

Meadows CHOICE Community School
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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

March 21, 2002



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

MEADOWS CHOICE COMMUNITY SCHOOL

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 9, 2002**