



**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Prior Audit Findings.....	25

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Mary Taylor, CPA

Auditor of State

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 Meadows CHOICE Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meadows CHOICE Community School, as of June 30, 2008, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 13, 2009

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of Meadows CHOICE Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were \$63,960 at June 30 2008.
- The School had operating revenues of \$1,174,532 and operating expenses of \$1,390,177 for fiscal year 2008. The School also had \$275,481 in non-operating revenues (expenses) during fiscal year 2008. Total change in net assets for the fiscal year was an increase of \$59,836.

Using these Basic Financial Statements

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

Reporting the School Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2008?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

The table below provides a summary of the School's net assets for fiscal years 2008 and 2007.

Net Assets		
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ 196,088	\$ 111,156
Security deposits	4,000	4,000
Capital assets, net	<u>53,057</u>	<u>66,488</u>
 Total assets	 <u>253,145</u>	 <u>181,644</u>
<u>Liabilities</u>		
Current liabilities	164,722	144,174
Non-current liabilities	<u>24,463</u>	<u>33,346</u>
 Total liabilities	 <u>189,185</u>	 <u>177,520</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	28,594	33,142
Restricted	13,016	28,846
Unrestricted (deficit)	<u>22,350</u>	<u>(57,864)</u>
 Total net assets	 <u>\$ 63,960</u>	 <u>\$ 4,124</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the School's net assets totaled \$63,960. Both current assets and current liabilities increased in fiscal year 2008. The increase in current assets was due to an increase in cash and cash equivalents. The increase in current liabilities was primarily due to an increase in accrued wages and benefits and an increase in pension obligation payable.

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program. Federal entitlement programs also make up a large portion of the school's revenue. Foundation payments attributed to 68.86% of total operating and non-operating revenues during fiscal year 2008.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

The table below shows the changes in net assets for fiscal years 2008 and 2007.

Change in Net Assets

	<u>2008</u>	<u>2007</u>
<u>Operating Revenues:</u>		
State foundation	\$ 1,002,570	\$ 834,567
Special education	164,925	226,494
Other operating revenue	<u>7,037</u>	<u>4,445</u>
Total operating revenue	<u>1,174,532</u>	<u>1,065,506</u>
<u>Operating Expenses:</u>		
Salaries and wages	686,140	690,636
Fringe benefits	216,441	191,367
Purchased services	340,540	390,105
Materials and supplies	115,997	35,253
Depreciation	23,440	26,572
Other	<u>7,619</u>	<u>11,515</u>
Total operating expenses	<u>1,390,177</u>	<u>1,345,448</u>
<u>Non-operating revenues (expenses):</u>		
Federal and State grants	280,368	219,037
Interest income	976	1,814
Loss on disposal of asset	(3,853)	(325)
Interest and fiscal charges	<u>(2,010)</u>	<u>(3,335)</u>
Total non-operating revenues (expenses)	<u>275,481</u>	<u>217,191</u>
Change in net assets	59,836	(62,751)
Net assets at beginning of year	<u>4,124</u>	<u>66,875</u>
Net assets at end of year	<u>\$ 63,960</u>	<u>\$ 4,124</u>

The increase in foundation revenue and the increase in salaries and wage expenses are due to an increase in enrollment in the School.

Capital Assets

At June 30, 2008, the School had \$53,057 invested in furniture, fixtures and equipment and capital leases, net of accumulated depreciation. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Debt Administration

The School had capital leases in the amount of \$24,463 outstanding at June 30, 2008. Of this total \$9,518 is due within one year and \$14,945 is due in greater than one year. See Note 12 in the notes to the basic financial statements for more detail on the capital leases outstanding.

Current Financial Related Activities

The School's fiscal agent relationship with the Lucas County Educational Service Center aids in raising the quality of financial records and strengthens internal controls. During the 2007-2008 school year, there were approximately 143 students enrolled in the School. The School relies on the State Foundation Funds as well as State and Federal Sub-Grants to provide the monies necessary to operate the School.

Contacting the School's Financial Management

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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:

Current assets:

Cash and cash equivalents	\$	155,916
Receivables:		
Intergovernmental.		32,205
Prepayments		7,967
Total current assets.		196,088

Non-current assets:

Security deposits		4,000
Capital assets, net.		53,057
Total non-current assets.		57,057
Total assets		253,145

Liabilities:

Current liabilities:

Accounts payable		242
Accrued wages and benefits		108,379
Intergovernmental payable.		23,368
Pension obligation payable		32,733
Total current liabilities.		164,722

Non-current liabilities:

Due within one year.		9,518
Due in more than one year		14,945
Total non-current liabilities		24,463
Total liabilities		189,185

Net Assets:

Invested in capital assets, net of related debt		28,594
Restricted for:		
Other purposes		949
State funded programs.		4,568
Federally funded programs.		7,499
Unrestricted.		22,350
Total net assets.	\$	63,960

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, 2008

Operating revenues:

State foundation	\$	1,002,570
Special education		164,925
Other operating revenue		7,037
Total operating revenue		<u>1,174,532</u>

Operating expenses:

Salaries and wages		686,140
Fringe benefits		216,441
Purchased services		340,540
Materials and supplies		115,997
Depreciation		23,440
Other		7,619
Total operating expenses		<u>1,390,177</u>

Operating loss		<u>(215,645)</u>
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Non-operating revenues (expenses):

Federal and State grants		280,368
Interest income		976
Interest and fiscal charges		(2,010)
Loss on disposal of assets		(3,853)
Total non-operating revenues (expenses)		<u>275,481</u>

Change in net assets		59,836
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Net assets at beginning of year		<u>4,124</u>
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Net assets at end of year	\$	<u><u>63,960</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Cash flows from operating activities:	
Cash received from State foundation	\$ 1,171,617
Cash received from other operations	7,037
Cash payments for salaries and wages	(686,401)
Cash payments for fringe benefits	(201,012)
Cash payments to suppliers for goods and services.	(328,714)
Cash payments for materials and supplies	(115,977)
Cash payments for other expenses	<u>(7,425)</u>
Net cash used in operating activities	<u>(160,875)</u>
Cash flows from noncapital financing activities:	
Federal and State grants.	<u>284,775</u>
Net cash provided by noncapital financing activities	<u>284,775</u>
Cash flows from capital and related financing activities:	
Interest and fiscal charges.	(2,010)
Principal retirement on capital lease.	(8,883)
Acquisition of capital assets.	<u>(13,862)</u>
Net cash used in capital and related financing activities	<u>(24,755)</u>
Cash flows from investing activities:	
Interest received	<u>976</u>
Net cash provided by investing activities	<u>976</u>
Net increase in cash and cash equivalents	100,121
Cash and cash equivalents at beginning of period.	<u>55,795</u>
Cash and cash equivalents at end of period	<u><u>\$ 155,916</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (215,645)
Adjustments:	
Depreciation.	23,440
Changes in assets and liabilities:	
Decrease in due from other governments	4,122
Decrease in prepayments.	6,660
(Decrease) in accounts payable.	(6,519)
Increase in accrued wages and benefits	7,558
(Decrease) in intergovernmental payable.	(13,224)
Increase in pension obligation payable.	<u>32,733</u>
Net cash used in operating activities	<u><u>\$ (160,875)</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, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School was approved for operation under an initial contract with the Lucas County Educational Service Center (the "Sponsor") for a period of five years ending July 24, 1998 and has been renewed annually. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School (see Note 10).

The School operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 12 non-certified and 11 certified full-time teaching personnel who provide services to 137 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 a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) 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 revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

B. Measurement Focus

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

C. Basis of Accounting

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

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

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 specific purpose and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

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

For the purposes of the statement of cash flows and the presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

During the year ended 2008, the School only has deposits.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, IDEA-B grant, the Title VI-B grant, Title II-A, Title IV-D, Title V and the Title IV-A. Revenues from Grants and entitlements are recognized as non-operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from State Foundation are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense in the year in which services are consumed.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of \$500 for furniture and equipment. The School does not possess any infrastructure.

Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments.

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

J. Operating Revenues and Expenses

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

K. Estimates

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

L. Security Deposits

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2008, the School has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the School; however, certain disclosures related to postemployment benefits (see Note 9) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the School.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At year end June 30, 2008, the carrying amount of the School's deposits was \$155,916 and the bank balance was \$173,769. As of June 30, 2008, \$100,000 was covered by the Federal Depository Insurance Corporation and \$73,769 was protected by a collateral pool of eligible securities deposited with a qualified trustee and is exposed to custodial credit risk.

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental:	
Title I	\$ 23,156
Title V	154
Title IV	207
Title IIA	1,280
IDEA-B	7,244
Title II-D	164
Total Intergovernmental Receivables	<u>\$ 32,205</u>

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance 06/30/07	Additions	Deductions	Balance 06/30/08
Capital assets:				
Furniture, fixtures and equipment	\$ 115,863	\$ 13,862	\$ (58,454)	\$ 71,271
Capital leases	53,321	-	(7,390)	45,931
Total capital assets	<u>169,184</u>	<u>13,862</u>	<u>(65,844)</u>	<u>117,202</u>
Less: accumulated depreciation				
Furniture, fixtures and equipment	(77,961)	(14,254)	54,601	(37,614)
Capital leases	(24,735)	(9,186)	7,390	(26,531)
Total accumulated depreciation	<u>(102,696)</u>	<u>(23,440)</u>	<u>61,991</u>	<u>(64,145)</u>
Total capital assets, Net of accumulated depreciation	<u>\$ 66,488</u>	<u>\$ (9,578)</u>	<u>\$ (3,853)</u>	<u>\$ 53,057</u>

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School contracted with the Cincinnati Insurance Company for general liability, property and educational errors and omissions insurance. The insurance coverage is as follows:

Commercial General Liability per Occurrence	\$ 1,000,000
Commercial General Liability Aggregate	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 Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 7 - RISK MANAGEMENT – (Continued)

C. Employee Benefits

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

NOTE 8 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$29,124, \$30,659, and \$38,712, respectively; 84.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 8 - PENSION PLANS – (Continued)

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

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

Funding Policy - For fiscal year 2008, 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, 2008, 2007, and 2006, were \$47,899, \$49,846, \$52,765, respectively; 88.32 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$19,422, \$16,311, \$15,615, respectively; 84.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$2,098, \$2,085, and \$3,081, respectively; 84.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS – (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$3,685, \$3,834, and \$2,869, respectively; 88.32 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 10 - FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. A total contract payment of \$24,255 was paid during the year and a liability in the amount of \$2,728 was reported for the year ended June 30, 2008.

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

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending State funds;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and,
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 11 - PURCHASED SERVICES

For the period July 1, 2007, through June 30, 2008, purchased service expenses were payments for services rendered by various vendors, and are as follows:

<u>PURCHASED SERVICES</u>	
Professional and technical services	\$ 64,977
Property services	251,803
Travel mileage/meeting expense	599
Communications	3,848
Contracted craft or trade service	4,314
Pupil transportation services	<u>14,999</u>
Total	<u><u>\$ 340,540</u></u>

NOTE 12 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In a prior year, the School entered into capitalized leases for four copiers with MT Business Technologies, Inc. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lease. The capital lease has been recorded at the present value of the future minimum lease payments as of inception date. Principal and interest payments made totaled \$8,883 and \$2,010, respectively for fiscal year 2008.

The following is a schedule of the future minimum lease payments required under the capital lease and present value of the minimum lease payment as of June 30, 2008.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 9,518	\$ 1,375
2010	7,181	796
2011	5,367	357
2012	<u>2,397</u>	<u>73</u>
Total	<u><u>\$ 24,463</u></u>	<u><u>\$ 2,601</u></u>

NOTE 13 - OPERATING LEASE

The School renegotiated its operating lease, for the period August 1, 2006, through July 31, 2007, with the Bethel Lutheran Church, to lease classroom space to house the School, in the amount of \$7,674 per month. Rent payments in the amount of \$92,088 were made in fiscal year 2008. 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. The School has renewed this lease with Bethel Lutheran Church for an additional two year period commencing on August 1, 2007, and terminating on July 31, 2009.

**MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 14 - CONTINGENCIES

A. Grants

The School received financial assistance from State agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2008.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of this review, the amount the School owes did not result in a material adjustment to the financial statements.

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Mary Taylor, CPA

Auditor of State

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

Meadows CHOICE Community School
Lucas County
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, 2008, and have issued our report thereon dated March 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the School's management in a separate letter dated March 13, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, Governing Board, and the Community School's sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 13, 2009

MEADOWS CHOICE COMMUNITY SCHOOL
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Financial Reporting errors involving GAAP conversion	Yes	



Mary Taylor, CPA
Auditor of State

MEADOWS CHOICE COMMUNITY SCHOOL

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 9, 2009**