



**Auditor of State  
Betty Montgomery**



**MODEL COMMUNITY SCHOOL**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Governing Board:

We have audited the Balance Sheet of MODEL Community School, Lucas County, (MODEL) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year ended June 30, 2003. These financial statements are the responsibility of MODEL's 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 MODEL as of June 30, 2003, and the results of its operations and its cash flows for the fiscal 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 25, 2004, on our consideration of MODEL's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

**Betty Montgomery**  
Auditor of State

March 25, 2004

**MODEL COMMUNITY SCHOOL  
BALANCE SHEET  
AS OF JUNE 30, 2003**

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**Assets**

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$ 32,491
Intergovernmental Receivables	34,768
Prepaid Items	1,042
Security Deposits	<u>800</u>

Total Current Assets 69,101

Non-Current Assets

Security Deposits	5,165
Fixed Assets (Net of Accumulated Depreciation)	<u>40,112</u>

Total Non-Current Assets 45,277

Total Assets \$ 114,378

**Liabilities and Fund Equity**

Current Liabilities

Accounts Payable	\$ 35,985
Accrued Wages Payable	12,221
Intergovernmental Payable	<u>13,926</u>

Total Liabilities 62,132

Fund Equity

Retained Earnings Unreserved	<u>52,246</u>
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Total Liabilities and Fund Equity \$ 114,378

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

**MODEL COMMUNITY SCHOOL  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

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**Operating Revenues**

Foundation Payments	\$ 185,173
Special Education	721,486
Disadvantaged Pupil Impact Aid	6,260
Other Operating Revenues	<u>3,708</u>

Total Operating Revenues	<u>916,627</u>
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**Operating Expenses**

Salaries	585,570
Fringe Benefits	149,890
Purchased Services	290,312
Materials and Supplies	60,361
Depreciation	15,365
Other Operating Expenses	<u>8,275</u>

Total Operating Expenses	<u>1,109,773</u>
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Operating Loss	<u>(193,146)</u>
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**Non-Operating Revenues**

Grants - State	79,565
Grants - Federal	86,465
Contributions and Donations	18,543
Interest Earnings	<u>441</u>

Total Non-Operating Revenues	<u>185,014</u>
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Net (Loss)	(8,132)
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Retained Earnings at Beginning of Year	<u>60,378</u>
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Retained Earnings at End of Year	<u><u>\$ 52,246</u></u>
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*The notes to the financial statements are an integral part of this statement.*



**MODEL COMMUNITY SCHOOL  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003**

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 935,990
Cash Received from Other Operating Sources	3,708
Cash Payments to Suppliers for Goods and Services	(354,365)
Cash Payments to Employees for Services	(581,304)
Cash Payments for Employee Benefits	(155,330)
Cash Payments for Other Operating Uses	<u>(8,629)</u>
Net Cash Used For Operating Activities	(159,930)

**Cash Flows from Noncapital Financing Activities**

Grants - Federal	97,538
Grants - State	86,465
Contributions and Donations	<u>18,543</u>
Net Cash Provided by Noncapital Financing Activities	202,546

**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Acquisitions	<u>(42,278)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(42,278)</u>

**Cash Flows from Investing Activities**

Interest Earnings	<u>441</u>
Net Cash Provided by Investing Activities	<u>441</u>
Net Increase in Cash and Cash Equivalents	779
Cash and Cash Equivalents at the Beginning of the Year	<u>31,712</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 32,491</u></u>

(Continued)

**MODEL COMMUNITY SCHOOL  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

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

Operating Loss \$ (193,146)

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

Depreciation	15,365
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	4,691
Decrease in Intergovernmental Receivables	21,076
(Increase) in Prepaid Item	(895)
Increase in Accounts Payable	21,033
Increase in Accrued Wages	4,266
(Decrease) in Intergovernmental Payables	<u>(32,320)</u>
Total Adjustments	<u>33,216</u>
Net Cash Used by Operating Activities	<u>\$ (159,930)</u>

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

# **MODEL COMMUNITY SCHOOL**

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2003**

### **1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

MODEL Community School (MODEL) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MODEL 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 MODEL's tax-exempt status. MODEL's objective is to address the needs of students ages 5 to 11 who are diagnosed with autism or anything within the autism spectrum of disorders. MODEL, 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. MODEL may acquire facilities as needed and contract for any services necessary for the operation of the school.

MODEL was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing August 26, 1998. The Sponsor is responsible for evaluating the performance of MODEL 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 MODEL, (See Note 12).

MODEL operates under the direction of a nine-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls MODEL's one instructional/support facility staffed by 21 non-certified and 8 certificated full time teaching personnel who provide services to 40 students.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of MODEL have been prepared in conformity with generally accepted accounting principles 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. MODEL also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of MODEL's accounting policies are described below:

# MODEL COMMUNITY SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

### **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.

### **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 MODEL's contract with its Sponsor. The contract between MODEL 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 MODEL are accounted for by MODEL's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in MODEL's name. Monies for MODEL are maintained in these accounts or temporarily used to purchase short-term investments.

During 2003, investments were limited to an overnight repurchase agreement, which is valued at cost. For purposes of the statement of cash flows and for presentation on the

# MODEL COMMUNITY SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

balance sheet, investments with original maturities of three months or less at the time they are purchased by MODEL 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. MODEL 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.

### **F. Intergovernmental Revenues**

MODEL currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received 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 the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2003 school year totaled \$1,078,949.

### **G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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.

# MODEL COMMUNITY SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

### H. Security Deposit

MODEL entered into a lease for the use of a building for the operation of the school. Based on the lease agreement, a security deposit in the amount of \$5,165 was required to be paid at the signing of the agreement. This amount is held by the lessor. In addition, MODEL paid additional temporary deposits for an event occurring in July at the Pinnacle in the amount of \$600 which ends July 11, 2003 and for storage space at Toledo Express Mini-Storage in the amount of \$200 which ends September 14, 2003. These deposits are held by the vendors.

### I. Estimates

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

## 3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments 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, 2003, the carrying amount of MODEL's deposits was \$32,491, the bank balances were \$47,240. The bank balance was covered by federal depository insurance.

## 4. RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental receivables (e.g., federal and state 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.

## 5. FIXED ASSETS

A summary of MODEL's fixed assets, at June 30, 2003, follows:

Furniture and Equipment	\$	77,066
Less: Accumulated Depreciation		(36,954)
Net Fixed Assets	\$	<u>40,112</u>

## MODEL COMMUNITY SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

#### 6. RISK MANAGEMENT

##### A. Property and Liability

MODEL 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 2003, MODEL contracted with Nationwide Educational Insurers for property and general liability insurance.

Professional liability is protected by Nationwide Educational Insurers with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate.

##### B. Worker's Compensation

MODEL 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.

#### 7. DEFINED BENEFIT PENSION PLANS

##### A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (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 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The current 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 2003, 8.17 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contribution for pension obligations to

## MODEL COMMUNITY SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$24,107, \$13,686, and \$9,642 respectively; 100 percent has been contributed for the fiscal year 2003, 2002 and 2001.

#### **B. State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined plan offers features of both the DC plan and the DB plan. In the Combined plan, member contributions are invested by the member, and the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. DC and Combined plan members will transfer to the Defined Benefit plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB plan into the Combined plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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



## MODEL COMMUNITY SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

For fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by State Teachers Retirement Board, upon recommendation 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 contribution for pension obligations for the fiscal period ended June 30, 2003, 2002, and 2001 were \$37,211, \$26,861, and \$22,025 respectively; 100 percent has been contributed for fiscal year 2003, 2002 and 2001.

#### **8. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board of Ohio has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$2,826 for the fiscal year ended June 30, 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 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

# MODEL COMMUNITY SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

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 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year ended 2003, the minimum pay has been established at \$14,500. For the School, the amount to fund health care benefits, including surcharge, equaled \$3,524 for the fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits was \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000

### **9. OTHER EMPLOYEE BENEFITS**

#### **Employee Medical, Dental and Vision Benefits**

MODEL has contracted with a private carrier to employee medical, dental, and vision insurance to its full time employees who work 30 or more hours per week.

### **10. STATE SCHOOL FUNDING DECISION**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". MODEL is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

# MODEL COMMUNITY SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

### 11. CONTINGENCIES

#### A. Grants

MODEL received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MODEL at June 30, 2003.

#### 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 Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on MODEL Community School 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. The most recent review resulted in no adjustments.

### 12. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of MODEL Community School. As part of this agreement, MODEL shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to MODEL from the State of Ohio. The total contract payment of \$4,165 was paid in full during the year.

**MODEL COMMUNITY SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(Continued)**

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

- a. Maintain custody of all funds received by MODEL 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 MODEL;
- c. Maintain all financial records of all state funds of MODEL and follow State Auditor procedures for receiving and expending state funds;
- d. Assist MODEL in meeting all financial reporting requirements established by the Auditor of Ohio;
- e. Invest funds of MODEL in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with the Sponsor's or any other community school; and
- f. Pay obligations incurred by MODEL 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 MODEL so long as the proposed expenditure is within the approved budget and funds are available.

**13. PURCHASED SERVICES**

For the fiscal year June 30, 2003 purchased service expenses were payments for services rendered, as follows:

<b>PURCHASED SERVICES</b>	
Professional and Technical Services	\$ 202,148
Property Services	61,980
Travel Mileage/Meetings	2,843
Communications	8,649
Utilities	14,324
Contracted Craft or Trade Service	368
Total Purchased Services	<u><u>\$ 290,312</u></u>

## MODEL COMMUNITY SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

#### 14. OPERATING LEASE

MODEL has entered into an operating lease for the period September 1, 1998 through August 31, 2003 with "TEM Enterprises, Inc." to lease a school facility. MODEL has extended the lease with TEM Enterprise for one year. Payments made totaled \$61,980 for the fiscal year. Currently the lease is month to month.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2003:

<u>Year Ending June 30:</u>	
2004	\$ 70,289
2005	11,714
	<hr/>
	\$ 82,003
	<hr/> <hr/>

MODEL has the option to renew the lease at an inflation-adjusted rate for one additional five-year term.

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**Auditor of State  
Betty Montgomery**

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

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

To the Governing Board:

We have audited the accompanying financial statements of MODEL Community School, Lucas County, (MODEL), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 25, 2004. 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 MODEL's 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 MODEL in a separate letter dated March 25, 2004.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered MODEL's 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 controls over financial reporting that do not require inclusion in this report, that we have reported to management of MODEL in a separate letter dated March 25, 2004.

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

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

**Betty Montgomery**  
Auditor of State

March 25, 2004





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**MODEL COMMUNITY SCHOOL**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 29, 2004**