



**Auditor of State  
Betty Montgomery**



**MODEL 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 .....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	23

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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 accompanying basic financial statements of MODEL Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2005, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2006, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

March 8, 2006

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The discussion and analysis of MODEL Community School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

**Financial Highlights**

- Total Assets were \$333,224.
- Total Liabilities were \$173,207.
- Total Net Assets were \$160,017.

**Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

**Reporting the School as a Whole**

One of the most important questions asked about the School is, "As a whole, what is the School's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School's financial statements, report information on the School as whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the School.

The Statement of Net Assets and the Statement of Activities report the activities for the School, which encompass all the School's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004:

**(Table 1)  
Net Assets**

	2005	2004
<b>Assets</b>		
Current Assets	\$ 276,705	\$ 83,208
Security Deposits	10,865	5,185
Capital Assets, Net	45,654	30,062
<i>Total Assets</i>	<u>333,224</u>	<u>118,455</u>
<b>Liabilities</b>		
Current Liabilities	158,871	68,247
Non-Current Liabilities	14,336	
<i>Total Liabilities</i>	<u>173,207</u>	<u>68,247</u>
<b>Net Assets</b>		
Invested in Capital Assets	31,318	30,062
Unrestricted	128,699	20,146
<i>Total Net Assets</i>	<u>\$ 160,017</u>	<u>\$ 50,208</u>

Total assets increased \$214,769. This increase was primarily due to a rise in cash and cash equivalents in fiscal year 2005. Cash and cash equivalents increased by \$203,155 from 2004. Intergovernmental receivables increased by \$3,703. This increase was due to the timing of the receipt of some grants. In fiscal year 2005, the receipts from these grants were received in fiscal year 2006. Capital Assets, net of depreciation increased by \$15,592. Total Liabilities increased by \$104,960 due to the School entering into a capital lease, a significant increase in the SERS surcharge, and an increase in accounts payable.



**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

**(Table 2)  
Change in Net Assets**

	2005	2004
<b>Operating Revenues:</b>		
Foundation Payments	\$ 371,237	\$ 247,238
Disadvantaged Pupil Impact Aid		5,882
Special Education	1,461,434	916,138
Other	38,533	349
<b>Non-Operating Revenues:</b>		
Federal Grants	24,685	32,534
State Grants	11,871	59,320
Interest	891	186
Donations	18,574	11,740
<i>Total Revenues</i>	<u>1,927,225</u>	<u>1,273,387</u>
<b>Operating Expenses</b>		
Salaries	815,993	641,591
Fringe Benefits	264,922	206,686
Purchased Services	638,918	367,896
Materials and Supplies	47,505	36,560
Depreciation	17,110	11,867
Other Expenses	31,913	10,825
<b>Non-Operating Expenses:</b>		
Interest and Fiscal Charges	1,055	
<i>Total Expenses</i>	<u>1,817,416</u>	<u>1,275,425</u>
<i>Increase/(Decrease) in Net Assets</i>	<u>\$ 109,809</u>	<u>\$ (2,038)</u>

Operating activities are dependent upon state foundation revenues. General revenues (i.e. contributions and donations) are used to fund operational activities; however the School's general revenue is 3 percent of total revenue. The primary support for the School is Special Education Funds from the Ohio Department of Education. Expenditures increased in fiscal year 2005, this increase was due to salaries and benefits due to an increase in employees and wages and an increase in purchase services. The purchase service amount increase mainly due to an increase in professional and technical services and property services.

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Capital Assets**

At June 30, 2005, the School had \$45,654, invested in furniture and equipment which represented an increase of \$15,592 from 2004. Table 3 shows fiscal year 2005 and fiscal year 2004:

**(Table 3)  
Capital Assets at June 30, 2005  
(Net of Depreciation)**

	<u>2005</u>	<u>2004</u>
Furniture & Equipment	\$ 32,581	\$ 30,062
Capital Lease	13,073	
Totals	<u>\$ 45,654</u>	<u>\$ 30,062</u>

For more information on capital assets see Note 5 to the basic financial statements.

**Capital Lease**

At June 30, 2005, the School had \$14,336 in capital leases payable, which \$2,894 is reported as a current liability due within one year. Table 4 shows fiscal year 2005 and fiscal year 2004:

**(Table 4)  
Outstanding Debt at June 30, 2005**

	<u>2005</u>	<u>2004</u>
Capital Lease Payable	\$ 14,336	\$ -

For more information on the capital leases, see note 13 to the basic financial statements.

**Current Financial Issues**

The School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2004-2005 school year, there were approximately 66 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2005 amounted to \$5,058 per student.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Ms. Mary Walters, Director at MODEL Community School, 1615 Holland Road, Maumee, Ohio 43537-1622 or e-mail at autismschool@hotmail.com.

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

**Assets**

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$	258,883
Intergovernmental Receivables		3,946
Prepaid Items		13,876
<i>Total Current Assets</i>		276,705

Non-Current Assets:

Security Deposits		10,865
Capital Assets:		
Depreciable Capital Assets, Net		45,654
<i>Total Non-Current Assets</i>		56,519
<i>Total Assets</i>		333,224

**Liabilities**

Current Liabilities:

Accounts Payable		42,177
Accrued Wages Payable		21,185
Intergovernmental Payable		95,509
<i>Total Current Liabilities</i>		158,871

Non-Current Liabilities:

Due Within One Year		2,894
Due In More Than One Year		11,442
<i>Total Non-Current Liabilities</i>		14,336
<i>Total Liabilities</i>		173,207

**Net Assets**

Invested in Capital Assets, Net of Related Debt		31,318
Unrestricted		128,699
<i>Total Net Assets</i>		\$ 160,017

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<b>Operating Revenues</b>	
Foundation Payments	\$ 371,237
Special Education	1,461,434
Other Revenues	<u>38,533</u>
<i>Total Operating Revenues</i>	<u>1,871,204</u>
 <b>Operating Expenses</b>	
Salaries	815,993
Fringe Benefits	264,922
Purchased Services	638,918
Materials and Supplies	47,505
Depreciation	17,110
Other	<u>31,913</u>
<i>Total Operating Expenses</i>	<u>1,816,361</u>
<i>Operating Income</i>	<u>54,843</u>
 <b>Non-Operating Revenues and Expenses</b>	
Federal Grants	24,685
State Grants	11,871
Interest	891
Contributions and Donations	18,574
Interest and Fiscal Charges	<u>(1,055)</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>54,966</u>
<i>Change in Net Assets</i>	109,809
<i>Net Assets Beginning of Year</i>	<u>50,208</u>
<i>Net Assets End of Year</i>	<u><u>\$ 160,017</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 1,832,671
Cash Received from Other Operating Revenues	38,650
Cash Payments to Suppliers for Goods and Services	(695,555)
Cash Payments to Employees for Services	(809,435)
Cash Payments for Employee Benefits	(196,480)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	169,851

Cash Flows from Noncapital Financing Activities:

Federal Grants Received	24,928
State Grants Received	7,925
Contributions and Donations	18,574
	<hr/>
<i>Net Cash Provided by Noncapital Financing Activities</i>	51,427

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(15,954)
Principal Payments	(2,005)
Interest Payments	(1,055)
	<hr/>
<i>Net Cash Used for Capital and Related Financing Activities</i>	(19,014)

Cash Flows from Investing Activities:

Interest	891
	<hr/>
<i>Net Cash Provided by Investing Activities</i>	891
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	203,155
	<hr/>
<i>Cash and Cash Equivalents at Beginning of Year</i>	55,728
	<hr/>
<i>Cash and Cash Equivalents at End of Year</i>	\$ 258,883

(Continued)

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)

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

Operating Income	\$ 54,843
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**Adjustments to Reconcile Operating Income to  
Net Cash Provided by Operating Activities**

Depreciation	17,110
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Changes in Assets and Liabilities:

Decrease in Accounts Receivable	117
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Decrease in Prepaid Items	13,244
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Increase in Security Deposits	(5,680)
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Increase in Accounts Payable	40,018
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Increase in Accrued Wages Payable	6,558
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Increase in Intergovernmental Payable	43,641
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<i>Total Adjustments</i>	<u>115,008</u>
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<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 169,851</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

MODEL 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 address the needs of students' ages 5 to 11 who are diagnosed with autism or anything within the spectrum of autism disorders. 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 a contract with the Lucas County Educational Service Center (the Sponsor) through June 2006. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School (see Note 10).

The School 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 the School's two instructional/support facilities staffed by 30 non-certified and 11 certificated full time teaching personnel who provide services to 66 students.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**B. Measurement Focus**

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

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**C. Basis of Accounting**

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

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

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

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

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

For the purposes of the statement of cash flows and the presentation on the balance sheet, investments with original maturities of three month or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During the year ended 2005, the School has only deposits.

**F. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.



**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**H. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures, and Equipment	5 years

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Invested in Capital Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

**J. Operating Revenues and Expenses**

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

**K. Estimates**

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

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**L. Security Deposits**

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$10,865, is held by the lessor. (See Note 12)

**NOTE 3 – DEPOSITS**

At fiscal year end June 30, 2005, the carrying amount of the Schools' deposits totaled \$258,883 and its bank balance was \$279,981. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, \$179,981 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2005, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title I '05	3,038
Title IV '05	26
Title IIA '05	758
Title IID '05	124
Total Intergovernmental Receivables	<u>\$ 3,946</u>

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
<b>Business-Type Activity</b>				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	78,883	16,361	-	95,244
Capital Leases		16,341	-	16,341
Total Capital Assets				
Being Depreciated	<u>78,883</u>	<u>32,702</u>	<u>-</u>	<u>111,585</u>
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(48,821)	(13,842)	-	(62,663)
Capital Leases		(3,268)	-	(3,268)
Total Accumulated Depreciation	<u>(48,821)</u>	<u>(17,110)</u>	<u>-</u>	<u>(65,931)</u>
Total Capital Assets				
Being Depreciated, Net	<u>30,062</u>	<u>15,592</u>	<u>-</u>	<u>45,654</u>

**NOTE 6 - 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 2005, the School contracted with Cincinnati Insurance Company for general liability and property insurance and educational errors and omissions 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 two facilities located at 1615 Holland Road, Maumee, Ohio and 4848 Door Street, Toledo, Ohio. (See Note 12)

**B. Workers' Compensation**

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

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 6 - RISK MANAGEMENT – (Continued)**

**C. Employee, Medical, Dental, Vision, Prescription, and Life Benefits**

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

**NOTE 7 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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.

For the fiscal year ended June 30, 2005, 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$50,101, \$30,140, and \$24,107, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

**B. State Teachers Retirement System of Ohio**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or on an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DCP 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 DCP and the DBP. In the CP, member contributions are invested by the member, and employer contributions are used

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 7 - DEFINED BENEFIT PENSION PLANS – (Continued)**

to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 DBP into the DCP or the CP. This option expired on December 31, 2001.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, 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.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2003, and 2002, were \$71,034, \$37,537, and \$37,211, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$3,756 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 8 - POSTEMPLOYMENT BENEFITS – (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$95,385.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

**NOTE 9 - CONTINGENCIES**

**A. Grants**

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

**B. State Funding**

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. ODE has conducted a review of the School's 2005 student enrollment data and FTE calculations. For fiscal year 2005, the results of this review resulted in no change.

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 9 – CONTINGENCIES – (Continued)**

**C. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for a review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

**NOTE 10 – FISCAL AGENT**

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The amount paid to Fiscal Agent for fiscal year 2005 totaled \$36,490 and a liability in the amount of \$6,447 was accrued for the year ended June 30, 2005.

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

- A. Maintain custody of all funds received by the School 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 the School;
- C. Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- D. Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. 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
- F. Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Director of the School so long as the proposed expenditure is within the approved budget and funds are available.

**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 11 – PURCHASED SERVICES**

For the period ended June 30, 2005, purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	\$	440,395
Property Services		152,817
Travel Mileage/Meeting Expense		6,940
Communications		15,570
Contracted Craft or Trade Services		493
Utilities		22,703
Total Purchased Services	\$	638,918

**NOTE 12 – OPERATING LEASES**

The School has renewed an operating lease, for the period September 1, 2004, through August 31, 2007, with the TEM Enterprises, Inc., to lease a school facility. Lease payments in the amount of \$61,974 were made in fiscal year 2005. Per the lease agreement, a security deposit of \$5,185 was required to be paid at the signing of the agreement and is held by the lessor.

On June 9, 2004, the School entered into a lease with 4848 Dorr LTD to lease space at 4848 Dorr Street. The lease period is from August 22, 2004, and terminates August 21, 2007. Payments made totaled \$62,480 for fiscal year 2005. Per the lease agreement, a security deposit of \$5,680 was required to be paid at the signing of the agreement and is held by the lessor.

The following is a schedule of future minimum lease payments required under the operating lease as of June 30, 2005:

	TEM Lease	4848 Dorr Lease	Total
Year Ended June 30:			
2006	\$ 62,594	\$ 68,160	\$ 130,754
2007	62,594	68,160	\$ 130,754
2008	10,432	11,360	\$ 21,792
Total	\$ 135,620	\$ 147,680	\$ 283,300

**NOTE 13 – CAPITAL LEASE**

In August of 2004, the School entered into a capital lease agreement for two copiers with MT Business Technologies, Inc. The lease starts on August 18, 2004 and terminates August 18, 2009. 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 inception date. Payments totaled \$6,216 for the year.



**MODEL COMMUNITY SCHOOL  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 13 – CAPITAL LEASE – (Continued)**

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, 2005.

<u>Year Ended June 30:</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,894	\$ 1,186
2007	3,169	911
2008	3,470	611
2009	3,798	281
2010	1,005	15
Total	<u>\$ 14,336</u>	<u>\$ 3,004</u>

**NOTE 14 – SUBSEQUENT EVENTS**

On August 22, 2005, the School revised the current lease with 4848 Dorr LTD to lease additional space at 4848 Dorr Street. The lease period is from August 22, 2005, and terminates August 21, 2007. The new monthly payment for the leased space will be \$8,340 per month.

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
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 basic financial statements of MODEL Community School, Lucas County, Ohio (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 8, 2006. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

**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*.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

MODEL Community School  
Lucas County  
Independent Accountants' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

March 8, 2006



**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 ACADEMY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 23, 2006**