



**Auditor of State  
Betty Montgomery**



**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Board of Trustees  
Citizens' Academy  
Cuyahoga County  
1827 Ansel Road  
Cleveland, Ohio 44106

We have audited the accompanying basic financial statements of the Citizens' Academy, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy'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 the Citizens' Academy, Cuyahoga County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note III, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2005 on our consideration of the Academy'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 the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted 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

April 25, 2005

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2004  
Unaudited

The discussion and analysis of Citizens' Academy (CA) provides an overall review CA's financial activities for the year ended June 30, 2004. The intent of the discussion and analysis is to look at CA'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 CA's financial performance.

**Financial Highlights**

Key financial highlights affecting 2004 are as follows:

Assets decreased by \$174,446 primarily due to \$105,783 increase in accumulated depreciation and a \$107,702 decrease in cash and cash equivalents.

Liabilities also decreased by \$34,713 mainly due to lower accrued rent and accounts payable.

In total, Net Assets decreased \$139,733.

Total Operating Revenues totaled \$2,038,429 for the year.

**Using this Annual Financial Report**

This annual report consists of financial statements and notes to those statements. These statements are organized so the reader can understand CA as a financial whole.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of CA. CA has one major fund for operating-type activities.

**Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2004?" These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received.

These statements report CA's net assets and the change in those assets. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

School-wide financial analysis

Table 1 provides a summary of CA's net assets as of June 30, 2004 and 2003.

**Table 1  
NET ASSETS**

<u>Assets:</u>	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	\$ 305,544	\$ 413,246
Receivables:		
Gifts and Grants	50,000	50,380
Intergovernmental	21,254	23,905
Other (Net of Allowance)	6,579	7,652
Prepaid Expenses	4,917	15,481
<b>Total Current Assets</b>	<b>388,294</b>	<b>510,664</b>
<b><u>Non-Current Assets:</u></b>		
Deposits on Leased and Other Property	15,000	15,000
Long-Term Gifts and Grants Receivable	-	50,000
Assets Permanently Restricted	5,000	5,000
Other Assets	5,357	-
Capital Assets (Net of Accumulated Depreciation)	1,528,236	1,535,669
<b>Total Non-Current Assets</b>	<b>1,553,593</b>	<b>1,605,669</b>
<b>Total Assets</b>	<b>1,941,887</b>	<b>2,116,333</b>
<b><u>Liabilities and Equity:</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	48,183	55,574
Due to Other Governments	82,371	84,000
Accrued Payroll	114,508	118,800
Accrued Rent	51,000	65,000
Other	1,988	9,389
<b>Total Current Liabilities</b>	<b>298,050</b>	<b>332,763</b>
<b><u>Net Assets</u></b>		
Investment in Capital Assets, net of related debt	1,528,236	1,535,669
Unrestricted	115,601	247,901
<b>Total Net Assets</b>	<b>\$ 1,643,837</b>	<b>\$ 1,783,570</b>

In the case of CA, capital assets (net of accumulated depreciation) comprise 79% of total assets. As a result, the depreciation expense has a significant impact on the total net assets. The majority of the change is due to the change in accumulated depreciation of \$105,783. In addition, our title funds anticipated revenues were reduced by approximately \$83,000, of which we were able to offset only \$42,000 in title funds expenses; thus incurring approximately a \$41,000 reduction in total net assets.

Total liabilities of \$298,050 decreased by \$34,713 with the majority of the decrease relating to lower accrued rent and accounts payable.

Total net assets totaled \$1,643,837 and decreased from the prior year by \$139,733. The decrease was primarily due to the \$105,783 increase in accumulated depreciation and the \$41,000 reduction from title funds discussed above.

Table 2 shows the changes in net assets for the years ended June 30, 2004 and 2003.

**Table 2**  
**Revenues, Expenses and Changes in Net Assets**

	<b>FOR THE YEAR ENDED</b>	
	<b>June 30, 2004</b>	<b>June 30, 2003</b>
<b><u>Operating Revenues:</u></b>		
Foundation Payments	\$ 1,970,840	\$ 1,817,102
Other Operating Revenues	<u>67,589</u>	<u>83,227</u>
<i>Total Operating Revenues</i>	<u>2,038,429</u>	<u>1,900,329</u>
 <b><u>Operating Expenses:</u></b>		
Salaries	1,456,622	1,335,916
Fringe Benefits	420,217	399,693
Purchased Services	595,315	642,116
Materials and Supplies	134,883	172,293
Depreciation	120,090	109,858
Other Operating Expenses	<u>47,307</u>	<u>48,679</u>
<i>Total Operating Expenses</i>	<u>2,774,434</u>	<u>2,708,555</u>
<b>Operating Loss</b>	<u>(736,005)</u>	<u>(808,226)</u>
 <b><u>Non-Operating Revenues:</u></b>		
Federal and State Grants	377,623	428,317
Private Grants and Contributions	216,724	521,917
Investment Earnings	<u>1,925</u>	<u>(1,435)</u>
<i>Total Non-Operating Revenues</i>	<u>596,272</u>	<u>948,799</u>
 <b><u>Net Assets</u></b>		
Net Increase/(Decrease) in Net Assets	(139,733)	140,573
Total Net Assets at Beginning of the Year	<u>1,783,570</u>	<u>1,642,997</u>
<b>Total Net Assets at End of Year</b>	<b><u>\$ 1,643,837</u></b>	<b><u>\$ 1,783,570</u></b>

Foundation payments accounted for 97% of the Operating Revenues. Community school foundation payments are received from the Ohio Department of Education (ODE) based on various student enrollment data submitted to ODE throughout the school year.

Operating expenses for 2004 totaled \$2,774,434 which represents an increase of \$65,879 over the prior year. The majority of the increase is in salaries primarily as a result of (1) adding new teaching positions and (2) incorporating salary increases to correlate CA's base salaries with the Cleveland Municipal School District. This is in recognition of both the quality and the importance of the work that teachers are performing, and to support CA's top priority of retaining high-quality teachers.

#### **General Budget Highlights**

CA prepares a detailed operating budget that facilitates the achievement of CA's mission as established by the Board of Trustees and ensures CA's financial stability and organizational continuity. This budget, approved annually by the Board for the upcoming fiscal year, is compared to actual monthly financial reports and discussed at all Board meetings.

Table 3 reflects capital assets, net of accumulated depreciation, as of June 30, 2004 and 2003.

**Table 3**  
**Capital Assets Net of Accumulated Depreciation**

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
Leasehold Improvements	\$ 1,230,108	\$ 1,299,470
Construction in progress	57,316	44,971
Playground	20,003	22,794
Computers, furniture & equipment	101,689	82,521
Classroom materials & furniture	118,706	85,167
Other	414	746
<b>Total</b>	<b><u>\$ 1,528,236</u></b>	<b><u>\$ 1,535,669</u></b>

CA's investment in capital assets for its activities as of June 30, 2004 amount to \$1,528,236. CA's fiscal-year 2005 capital budget calls for it to spend \$100,000 for capital projects.

CA has no long-term loan obligations outstanding.

#### **Economic Factors and Next Year's 2005 Budget**

CA's 2005 budget projects an increase in enrollment from approximately 300 students to 350, thus increasing projected school foundation payments to about \$2.3 million, or \$300,000 higher than in 2004. Therefore it is anticipated that compensation expense, which includes salaries and wages, payroll taxes, retirement and fringe benefits, will total about \$2.0 million or 63% of total operating expenses. The major budget economic assumptions include premiums for medical insurance will increase by 20%, dental by 10%, and all other fringes by 5%.

#### **Contacting CA's Financial Management**

The financial report is designed to provide all interested parties with a general overview of CA's finances. If you have any questions about this report or need additional information, contact CA's Executive Director, Perry White, at Citizens' Academy, 1827 Ansel Road, Cleveland, Ohio 44106, and phone number 216-791-4195.

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

Statement of Net Assets  
As of June 30, 2004

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$ 305,544
Receivables:	
Gifts and Grants	50,000
Intergovernmental	21,254
Other (Net of Allowance)	6,579
Prepaid Expenses	4,917
<i>Total Current Assets</i>	<u>388,294</u>

**Non-Current Assets:**

Deposits on Leased and Other Property	15,000
Assets Permanently Restricted	5,000
Other Assets	5,357
Capital Assets (Net of Accumulated Depreciation)	1,528,236
<i>Total Non-Current Assets</i>	<u>1,553,593</u>

<i>Total Assets</i>	<u><u>1,941,887</u></u>
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**Liabilities and Equity:**

**Current Liabilities:**

Accounts Payable	48,183
Due to Other Governments	82,371
Accrued Payroll	114,508
Accrued Rent	51,000
Other	1,988
<i>Total Current Liabilities</i>	<u>298,050</u>

**Net Assets**

Investment in Capital Assets, net of related debt	1,528,236
Unrestricted	115,601
<i>Total Net Assets</i>	<u><u>\$ 1,643,837</u></u>

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

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

Statement of Revenues, Expenses and Changes in Net Assets  
As of June 30, 2004

**Operating Revenues:**

Foundation Payments	\$ 1,970,840
Other Operating Revenues	<u>67,589</u>
<i>Total Operating Revenues</i>	<u>2,038,429</u>

**Operating Expenses:**

Salaries	1,456,622
Fringe Benefits	420,217
Purchased Services	595,315
Materials and Supplies	134,883
Depreciation	120,090
Other Operating Expenses	<u>47,307</u>
<i>Total Operating Expenses</i>	<u>2,774,434</u>

Operating Loss (736,005)

**Non-Operating Revenues:**

Federal and State Grants	377,623
Private Grants and Contributions	216,724
Investment Earnings	<u>1,925</u>
<i>Total Non-Operating Revenues</i>	<u>596,272</u>

**Net Assets**

Net Decrease in Net Assets	(139,733)
Total Net Assets at Beginning of the Year	<u>1,783,570</u>
Total Net Assets at End of Year	<u><u>\$ 1,643,837</u></u>

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

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

Statement of Cash Flows  
For the Year Ended June 30, 2004

<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from State of Ohio	\$ 1,961,208
Cash Payments to Suppliers for Goods and Services	(750,572)
Cash Payments to Employees for Services	(1,871,630)
Other Operating Revenues	<u>61,379</u>
Net Cash Used for Operating Activities	(599,615)
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>	
Non-Operating Grants and Contributions Received	<u>632,333</u>
Net Cash Received from Noncapital Financing Activities	632,333
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>	
Payments for Capital Acquisitions	<u>(141,367)</u>
Net Cash Used for Capital and Related Financing Activities	(141,367)
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest/Dividends Earned on Investments	<u>947</u>
Net Cash Received from Investing Activities	947
Net Decrease in Cash and Cash Equivalents	(107,702)
Cash and Cash Equivalents at Beginning of Year	<u>413,246</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 305,544</u></u>

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

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

Statement of Cash Flows  
For the Year Ended June 30, 2004  
(Continued)

**Reconciliation of Operating Loss to Net**

**Cash Used for Operating Activities:**

Operating Loss \$ (736,005)

**Adjustments to Reconcile Operating Loss to**

**Net Cash Used for Operating Activities:**

Depreciation 120,090

Donated Services 27,782

Loss on Disposal of Assets 13,051

Changes in Assets and Liabilities:

(Increase) in Accounts Receivable (8,559)

Decrease in Prepaid Expenses 10,564

Increase in Accounts Payable 968

(Decrease) in Accrued Expenses (12,849)

(Decrease) in Other Current Liabilities (14,657)

Total Adjustments 136,390

Net Cash Used for Operating Activities \$ (599,615)

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

Non-Cash Operating Activities:

Donated services are recorded at fair value as contribution revenue and as a corresponding expense as services are utilized.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**I. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Citizens' Academy (CA) is a nonprofit corporation established June 10, 1998, pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school and is organized as a tax exempt organization under § 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. These purposes include the fostering of quality public education, and the advancement of the interests of public school students through the operation of a community school, the development of innovative programs in public education and the development of systems of accountability for public school student performance. Management is not aware of any course of action or series of events that have occurred that might adversely affect CA's tax-exempt status. CA, which is part of Ohio's education program, is independent of any school district. CA may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CA.

A proposal was initially forwarded to the Ohio Department of Education by CA during September 1998 to open a community school in the fall of 1999. The Ohio Department of Education approved the proposal and entered into a contract with CA that provided for the commencement of operations at the beginning of the 1999-2000 school year.

As of June 30, 2004, CA operated under a fifteen-member Board of Trustees. The 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 qualification of teachers. The Board of Trustees controls CA's instructional facility staffed by twenty certificated full-time teaching personnel who provide services to 296 students.

**II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of CA have been prepared in conformity with generally accepted accounting principles 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. CA 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 CA's accounting policies are described below.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

1. Basis of Presentation

CA'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 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 and amortization) 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 changes in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. 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 Statement of Net Assets. Operating statements present increases (*e.g.*, revenues) and decreases (*e.g.*, expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. CA'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. Revenues resulting from non-exchange transactions, in which CA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year when use is first permitted; matching requirements, in which CA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to CA on reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash and Cash Equivalents

All monies received by CA are deposited in the name of CA at KeyBank. Investments are managed in accounts with McDonald Investments. For presentation on the Statement of Net Assets and Statement of Cash Flows, investments with an original maturity of three months or less are considered cash equivalents.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

4. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. CA maintains a capitalization threshold of \$500, except for items purchased from Federal Title funds, which have a \$300 threshold. CA does not possess any infrastructure.

Leasehold improvements are also 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. All reported capital assets are depreciated.

Depreciation and amortization of leasehold improvements, computers and equipment, furniture, and classroom and marketing materials are computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

<u>Fixed Asset Classification</u>	<u>Years</u>
Leasehold Improvements	20
Computers and Equipment	5
Appliances	7
Software	3
Classroom Materials and Furniture	10
Marketing Materials	5

5. Intergovernmental Revenues

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

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

6. Compensated Absences

Vacation for teaching staff is to be taken in a manner that corresponds with the school calendar; therefore, CA does not accrue vacation time as a liability.

Vacation benefits for non-teaching staff are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that CA will compensate the employees for the benefits through paid time off or some other means. CA records a liability for accumulated unused vacation time when earned. Accrued vacation pay totaling \$14,929 is reported on the Statement of Net Assets under Accrued Payroll.

7. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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.

8. Private Grants and Donations

CA has received funds from private foundations and individuals to support CA's educational programs and to assist in meeting the start up cost.

9. Net Assets

Net assets represent the difference between assets and liabilities. Net assets 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by CA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. CA presently has no restricted net assets.

10. Use of 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.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**III. CHANGES IN ACCOUNTING PRINCIPLES**

For 2004, CA has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expenses, and Changes in Net Assets replaces the Statement of Revenues, Expenses, and Changes in Retained Earnings. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required contents of the MD&A. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

The impact of implementing GASB Statements Nos. 34, 37, and 38 and GASB Interpretation No. 6 resulted in changes in the presentation of the financial statements and providing additional information in the notes to the basic financial statements.

**IV. BUDGETING**

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 Section 5705. The contract between CA and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

CA's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. CA's Principal and Executive Director are responsible for ensuring that purchases are made within these limits. Any variances from the budget are presented to the Board for approval.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**V. DEPOSITS AND INVESTMENTS**

At the end of fiscal 2004, the carrying amount of CA deposits was \$305,158 and the bank balances were \$315,553. Of the bank balances, \$100,000 was covered by federal depository insurance and \$215,553 was uninsured and uncollateralized. As of June 30, 2004, CA had \$169 in undeposited funds and \$217 in petty cash.

**VI. RECEIVABLES**

Receivables at June 30, 2004, consisted of private foundation grants, intergovernmental (e.g., Federal and state grants, childcare vouchers), and Before and After School Enrichment and Summer Program fees. All receivables from Federal, State, and local governments are considered collectible in full, due to the stable condition of state programs, the current-year guarantee of Federal funds, and the financial stability of the foundation sources. Non-governmental program fees receivable are shown on the Statement of Net Assets net of an \$11,919 allowance for doubtful accounts.

As of the date of the Statement of Net Assets, the Ohio Department of Education (ODE) has not completed its verification of the student full-time equivalents (FTE) upon which the school foundation payments are based. Any difference between the estimated counts and the final verification could result in adjustments to future foundation payments. However, in the opinion of management, any such difference will not have a material adverse effect on the overall financial position of CA at June 30, 2004.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

**VII. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004, was as follows:

	<b>Balance 06/30/03</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 06/30/04</b>
Leasehold Improvements	\$1,448,153	\$3,172	\$0	\$1,451,325
Computers, Furniture, and Equipment	135,763	54,231	(6,900)	183,094
Classroom Materials and Furniture	112,128	63,627	(28,125)	147,630
Marketing Materials	1,658	0	0	1,658
Playground Equipment	27,911	0	0	27,911
Construction in Progress	44,971	12,345	0	57,316
Totals at Historical Cost	<u>1,770,584</u>	<u>133,375</u>	<u>(35,025)</u>	<u>1,868,934</u>
Leasehold Improvements	(148,683)	(72,534)	0	(221,217)
Computers, Furniture, and Equipment	(53,242)	(29,888)	1,725	(81,405)
Classroom Materials and Furniture	(26,961)	14,544)	12,581	(28,924)
Marketing Materials	(912)	(332)	0	(1,244)
Playground Equipment	(5,117)	(2,791)	0	(7,908)
Total Depreciation	<u>(234,915)</u>	<u>(120,089)</u>	<u>14,306</u>	<u>(340,698)</u>
Net Capital Assets	\$1,535,669	\$13,286	\$ (20,719)	\$1,528,236

**VIII. PURCHASED SERVICES**

Purchased Services include the following:

Occupancy Costs	\$ 288,968
Pupil Support Services	140,385
Instruction	5,714
Administrative	142,786
Other	17,462
Total	<u>\$ 595,315</u>

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**IX. LEASES**

CA leases its facilities from The Temple-Tifereth Israel under a five-year lease agreement. This lease was effective July 1, 1999, and expired June 30, 2004. The lease provides CA with an option to renew for three additional five-year terms. CA exercised its option to renew for the second five-year term which expires June 30, 2009.

The lease agreement between CA and The Temple-Tifereth Israel provides for lease payments on a fixed scheduled increase basis plus 9 percent of total revenue up to a yearly rental cap amount.

CA has recorded additional rent payable of \$51,000 at June 30, 2004 based upon a percentage of gross revenue pursuant to the lease agreement.

**X. RISK MANAGEMENT**

1. Property and Liability

CA 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 2004, CA contracted with Indiana/Cincinnati Insurance Company for all of its insurance.

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregate. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Directors and Officers, Employee Crime, and Sexual Abuse and Misconduct. Settled claims have not exceeded this commercial coverage in any of the past three years, and there have been no significant reductions in insurance coverage from the prior year.

2. Workers' Compensation

CA makes premium payments to the Ohio Workers' Compensation System (WC) for employee injury coverage. As of June 30, 2004, there have been no claims filed by employees with WC for the year ending June 30, 2004.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**X. RISK MANAGEMENT (Continued)**

3. Employee Medical, Dental, and Vision Benefits

CA provides medical, dental, and vision insurance benefits to all full-time employees. Insurance premiums are paid by CA for each employee who elects to have coverage. Those employees who are eligible for coverage but choose not to take it are entitled to \$1,000 on a pro-rata basis. During the 2004 fiscal year, the costs to CA for medical, dental, and vision insurance benefits, net of employee contributions of 10 percent of medical premiums, were \$126,572.

**XI. PENSION PLANS**

1. School Employees Retirement System

CA contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and CA is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of CA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion 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. CA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$46,229, \$18,435, and \$20,143 respectively; 78 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. \$10,263 representing the unpaid contribution for fiscal year 2004 is recorded as a liability under "Due to Other Governments."

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**XI. PENSION PLANS (Continued)**

2. State Teachers Retirement System

CA contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 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 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 DC Plan or 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.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**XI. PENSION PLANS (Continued)**

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. CA 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 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.

CA's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$115,112, \$83,914, and \$62,410 respectively; 43 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. \$65,384 representing the unpaid contribution for fiscal year 2004 is recorded as a liability under "Due to Other Governments."

**XII. POST-EMPLOYMENT BENEFITS**

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For CA, this amount equaled \$8,855 during fiscal 2004, of which \$5,003 was payable at June 30, 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the latest information available). For June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**XII. POST-EMPLOYMENT BENEFITS (Continued)**

*Betty Montgomery* made available to service retirees with ten or more fiscal years of service credit for disability and for survivor benefits. Members retiring on or after more than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For fiscal 2004, the amount to fund health care benefits equaled \$24,970, of which \$5,569 was payable at June 30, 2004.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**XIII. 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...".

CA is unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**CITIZENS' ACADEMY**  
**— A Community School —**  
**CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(CONTINUED)**

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**XIV. CONTINGENCIES**

1. Grants

CA 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 CA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of CA at June 30, 2004.

2. Pending Litigation

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 law. The effect of this suit, if any, on CA is not presently determinable.

**XV. RELATED PARTY TRANSACTIONS**

During 2004, CA received accounting, tax, and business advisory services from The Wortzman Company, which is owned by a previous CA Board member. Total compensated expenses provided during fiscal 2004 were \$15,530; donated services were \$27,782. Donated services are recorded at fair value as contribution revenue and as a corresponding expense as the services are utilized by CA. In addition, CA employed the spouse of a Board member in the capacity of classroom teacher.

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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***

Board of Trustees  
Citizens' Academy  
Cuyahoga County  
1827 Ansel Road  
Cleveland, Ohio 44106

We have audited the financial statements of Citizens' Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated April 25, 2005, wherein we noted the Academy adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. 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 Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy'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. In a separate letter to the Academy's management dated April 25, 2005 we noted other matters involving the internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy'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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

Citizens' Academy  
Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Citizens' Academy  
Cuyahoga County  
Independent Accountants' Report on Internal Control  
Over Financial Reporting and on Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not for 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

April 25, 2005

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2004-001</b>
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**Fiscal Officer Designation Bonding Requirement**

Ohio Revised Code (ORC) Section 3314.011 provides that every community school established under this Chapter shall designate an individual as the fiscal officer. The Ohio Administrative Code (OAC) Section 117-6-07(B) requires the fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. ORC Section 3314.011(B)(1) provides that the bond amount and surety is to be established by resolution of the governing authority. ORC Section 3314.011(B)(3) provides that bonding is conditioned on the faithful performance of the employee's official duties.

In addition, ORC Section 3314.011 provides, prior to assuming the duties of fiscal officer, the fiscal officer designee shall be licensed as prescribed by Section 3301.074 of the Revised Code or shall complete not less than sixteen hours of continuing education classes in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under this section shall complete an additional twenty-four hours of continuing education within one year after assuming the duties of fiscal officer of the school.

Although the Board designated an individual as a fiscal officer, the Board did not execute a bond for the position of fiscal officer (treasurer), nor did the Board set the amount of the surety. Also, the individual designated as fiscal officer failed to obtain the necessary license or training prior to assuming the position of fiscal officer.

We recommend the School review the provisions of ORC Sections 3314.011 and 3301.074 and OAC Section 117-6-07 and take the necessary steps to ensure that the fiscal officer is designated by the Board, and that the individual is adequately bonded and licensed or has completed the required continuing education training.





**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

**CITIZENS' ACADEMY**

**CUYAHOGA 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  
MAY 24, 2005**