



**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants	1
Balance Sheet as of June 30, 2002	3
Statement of Revenues, Expenses and Changes in Retained Earnings for the Year Ended June 30, 2002	4
Statement of Cash Flows for the Year Ended June 30, 2002	5
Notes to the Financial Statements	7
Schedule of Federal Awards Revenues and Expenses	19
Notes to the Schedule of Federal Awards Revenue and Expenses	20
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	21
Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133	23
Schedule of Findings	25
Schedule of Prior Audit Findings	26

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STATE OF OHIO  
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## REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying financial statements of the Citizens' Academy, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the School'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, 2002, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Federal Awards Revenue and Expenses is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

November 15, 2002

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**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$ 483,131
Short-Term Investments	11,803
Receivables:	
Federal Title Funds	36,416
Foundation Grants	5,000
Intergovernmental	19,058
Accounts	5,742
Deposits	15,000
Prepaid Expenses	12,917
<i>Total Current Assets</i>	<u>589,067</u>

**Non-Current Assets:**

Fixed Assets (Net of Accumulated Depreciation and Amortization)	<u>1,410,740</u>
<i>Total Assets</i>	<u><u>1,999,807</u></u>

**Liabilities and Equity:**

**Current Liabilities:**

Accounts Payable	156,350
Due to Other Governments	61,183
Accrued Payroll	91,277
Accrued Rent	48,000
<i>Total Current Liabilities</i>	<u>356,810</u>

**Equity:**

Retained Earnings	<u>1,642,997</u>
<i>Total Liabilities and Equity</i>	<u><u>\$ 1,999,807</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 RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2002**

**Operating Revenues:**

Foundation Revenue	\$ 1,347,689
Other Operating Revenues	<u>72,299</u>
<i>Total Operating Revenues</i>	<u>1,419,988</u>

**Operating Expenses:**

Salaries	1,049,209
Fringe Benefits	273,480
Purchased Services	560,718
Materials and Supplies	166,131
Depreciation and Amortization	81,582
Other Operating Expenses	<u>39,898</u>
<i>Total Operating Expenses</i>	<u>2,171,018</u>
Operating Loss	<u>(751,030)</u>

**Non-Operating Revenues:**

Federal and State Grants	433,907
Private Grants and Contributions	405,064
Investment Earnings	<u>3,922</u>
<i>Total Non-Operating Revenues</i>	<u>842,893</u>
Net Income	91,863
Retained Earnings at Beginning of the Year	<u>1,551,134</u>
Retained Earnings at End of Year	<u>\$ 1,642,997</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, 2002

**Increase in Cash and Cash Equivalents:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$ 1,440,019
Cash Payments to Suppliers for Goods and Services	(812,752)
Cash Payments to Employees for Services	(1,284,295)
Other Operating Revenues	<u>75,000</u>
Net Cash Used for Operating Activities	<u>(582,028)</u>

**Cash Flows from Noncapital Financing Activities:**

Non-Operating Grants and Contributions Received	<u>1,234,440</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,234,440</u>

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

Payments for Capital Acquisitions	<u>(735,889)</u>
Net Cash Used for Capital and Related Financial Activities	<u>(735,889)</u>

**Cash Flows from Investing Activities:**

Realized Gains on Investments	542
Interest/Dividends Earned on Investments	<u>4,627</u>
Net Cash Provided by Investing Activities	<u>5,169</u>
Net Decrease in Cash and Cash Equivalents	(78,308)
Cash and Cash Equivalents at Beginning of Year	<u>561,439</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 483,131</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, 2002  
(Continued)**

**Reconciliation of Operating Loss to Net**

**Cash Used for Operating Activities:**

Operating Loss \$ (751,030)

**Adjustments to Reconcile Operating Loss to**

**Net Cash Used for Operating Activities:**

Depreciation and Amortization 81,582

Changes in Assets and Liabilities:

Decrease in Accounts Receivable 71,655

Decrease in Prepaid and Other 20,703

Decrease in Accounts Payable (24,845)

Increase in Accrued Expenses 19,907

Total Adjustments 169,002

Net Cash Used for Operating Activities \$ (582,028)

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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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 an 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. **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. **CA** 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 **CA's** tax-exempt status.

**CA** operates under an eighteen-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 sixteen certificated full-time teaching personnel who provide services to 226 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, 2002**

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

1. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation 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 net income 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 balance sheet. Equity consists of retained earnings. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Contributions and grants are recognized when the donor makes a promise to give to **CA** that is unconditional and probable of collection.

3. Cash and Cash Equivalents

All monies received by **CA** are deposited in the name of **CA** at National City Bank and KeyBank. Investments are managed in accounts with McDonald & Company. For presentation on the balance sheet 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, 2002**

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

4. Fixed Assets and Depreciation/Amortization

Fixed assets are capitalized at cost and updated for additions and retirements during the year. The school maintains a capitalization threshold of \$500, except for items purchased from Federal Title funds, which have a \$300 threshold.

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.

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
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 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, **CA** was awarded \$150,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above-named programs for the 2002 school year totaled \$1,781,596.

**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. The entire amount for compensated absences is reported under Accrued Payroll.

**7. Private Grants and Donations**

The School has received funds from private foundations and individuals to support the schools educational programs and to assist in meeting the start up costs. In addition, grants and contributions have been received for various specific purposes including building renovation, classroom materials and supplies, and specific programs, projects, and learning centers.

**8. 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.

**III. BUDGETING**

**CA** prepared budgets for submission to the Ohio Department of Education, the sponsor, as required during the application process for approval as a Community School. **CA** also prepares budgets for electronic reporting through the Ohio Department of Education Educational Management Information System (EMIS).

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**IV. DEPOSITS AND INVESTMENTS**

At the end of fiscal year June 30, 2002, the carrying amount of **CA** deposits was \$482,392 and the bank balances were \$447,121. Of the bank balances, \$122,272 was covered by federal depository insurance and \$324,849 was uninsured and uncollateralized. As of June 30, 2002, the school had \$500 in undeposited funds and \$239 in petty cash.

On June 30, 2002, **CA** held donated trading securities reported as short-term investments at their fair market value of \$11,803. Donated trading securities are recorded as contributions at their estimated fair market values on the date of donation. Unrealized gains and losses are included in the change in net assets.

**V. RECEIVABLES**

Receivables at June 30, 2002, consisted of Federal Title funds, 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 balance sheet net of a \$5,981 allowance for doubtful accounts.

As of the balance sheet date, 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 the School at June 30, 2002.

The School has recognized on its balance sheet a liability (included in "Due to Other Governments") for the amount that is estimated as owing by the School to the Ohio Department of Education based on the difference in the actual student full-time equivalent (FTE) enrollment as determined at the end of the 2001 fiscal year, compared to the October 2000 enrollment that the School's monthly funding was based upon. The payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated at year end. The total amount recognized at June 30, 2002 was \$22,626.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**VI. FIXED ASSETS**

A summary of **CA** fixed assets follows:

Leasehold Improvements	\$ 1,126,087
Computers, Appliances, and Equipment	102,308
Classroom Materials and Furniture	92,950
Marketing Materials	1,658
Playground Equipment	27,911
Construction in Progress	185,815
Less Accumulated Depreciation and Amortization	<u>(125,989)</u>
Net Fixed Assets	<u>\$ 1,410,740</u>

**VII. PURCHASED SERVICES**

Purchased Services include the following:

Occupancy Costs	\$ 226,898
Pupil Support Services	92,731
Instruction	34,054
Administrative (accounting, consulting, audit)	194,534
Other	<u>12,501</u>
Total	<u>\$ 560,718</u>

**VIII. LEASES**

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

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** recognizes these fixed lease payments on a straight-line basis. A comparison of scheduled fixed lease costs and payments due follows:

Lease Year	Straight-Line Expense	Scheduled Rental Payments Due
2002	\$106,000	\$107,000
2003	\$106,000	\$113,000
2004	\$106,000	\$124,000



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**VIII. LEASES (Continued)**

**CA** has recorded \$25,000 as base rent payable on the balance sheet. This amount represents the funds due at June 30, 2002 on the straight-line basis over the life of the lease. In addition, **CA** has recorded additional rent payable of \$23,000 based upon a percentage of gross revenue pursuant to the lease agreement.

The rental cap as provided in the lease agreement was established as follows:

Lease Year	Rental Cap
2002	\$130,000
2003	\$160,000
2004	\$175,000

**IX. 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 2002, **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, 2002, there has been one claim filed by employees with WC.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**IX. 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 calculated on the time worked during the year.

During the 2002 fiscal year, the costs to **CA** for medical, dental and vision insurance benefits were \$94,576.

**X. DEFINED BENEFIT 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 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, 45 N. 4th St., Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and **CA** is required to contribute 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 2002, 5.46 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, 2002, 2001, and 2000 were \$20,143, \$14,490, and \$6,254 respectively; 76 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$4,745 representing the unpaid contribution for fiscal year 2002 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, 2002**

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**X. DEFINED BENEFIT 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, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. **CA** was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. **CA's** required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$62,410, \$32,179, and \$30,450 respectively; 79 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$13,276 representing the unpaid contribution for fiscal year 2002 is recorded as a liability under "Due to Other Governments."

**XI. 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, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For **CA**, this amount equaled \$29,563 during fiscal 2002.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit and to disability and for survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. 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 8.54 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 2002, the minimum pay was established at \$12,400. For **CA**, the amount to fund health care benefits equaled \$31,505 for fiscal 2002.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**XII. STATE SCHOOL FUNDING DECISION**

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**XII. STATE SCHOOL FUNDING DECISION (Continued)**

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court-appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

**XII. 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, 2002.

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.

**XIV. START-UP FUNDING**

**CA** was also awarded a \$150,000 Federal supplemental grant during fiscal year 2002, which is recorded as non-operating revenue in the accompanying financial statements. These monies, along with other grants received from both private and public sources, were used for the purchase of classroom materials and furniture and for leasehold improvements of classroom and office spaces. All funds were used during the year and there is no remaining balance at year end.

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**CITIZENS' ACADEMY  
CUYAHOGA COUNTY**

**Schedule of Federal Awards Revenue and Expenses  
For the Year Ended June 30, 2002**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	CFDA Number	Revenues	Expenses
<b><u>U. S. Department of Agriculture</u></b>				
<i>Passed Through the Ohio Department of Education</i>				
Nutrition Cluster:				
National School Breakfast	133520-05PU-01	10.553	\$5,232	\$5,232
National School Breakfast	133520-05PU-02	10.553	19,560	19,560
National School Lunch Program	133520-LLP1-01	10.555	6,227	6,227
National School Lunch Program	133520-LLP1-02	10.555	3,283	3,283
National School Lunch Program	133520-LLP4-01	10.555	6,145	6,145
National School Lunch Program	133520-LLP4-02	10.555	44,447	44,447
Total U. S. Department of Agriculture - Nutrition Cluster			<b>84,894</b>	<b>84,894</b>
<b><u>U. S. Department of Education</u></b>				
<i>Passed Through the Ohio Department of Education</i>				
Special Education Cluster:				
Grants to Local Educational Agencies (ESEA Title I)	133520-C1S1-02	84.010	128,130	80,099
Drug Free Schools Grant	133520-DR-S1-01	84.186	351	1,489
Eisenhower Math and Science	133520-MS-S1-02	84.281	2,370	2,633
Federal Charter School Grant Program	133520-CH-S1-01	84.282	150,000	150,000
Innovative Educational Program Strategies	133520-C2-S1-02	84.298	373	1,246
Title VI - R	133520-CR-S1-01	84.340	22,117	14,250
Total U. S. Department of Education			<b>303,341</b>	<b>249,717</b>
Total Federal Assistance			<b>\$388,235</b>	<b>\$334,611</b>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.

**CITIZENS ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS REVENUE AND EXPENSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

CFDA – Catalog of Federal Domestic Assistance

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards revenue and expenses is a summary of the activity of the Community School's federal awards programs. The schedule has been prepared on the accrual basis of accounting.





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

We have audited the financial statements of the Citizens' Academy, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated November 15, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated November 15, 2002.

This report is intended for the information and use of management, audit committee the Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

**Jim Petro**  
Auditor of State

November 15, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the Citizens' Academy, Cuyahoga County, Ohio (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The School's major federal programs are identified in the Summary of Auditor's Results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the Citizens' Academy, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

**Internal Control Over Compliance**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the School in a separate letter dated November 15, 2002.

This report is intended for the information and use of management, audit committee the Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

November 15, 2002

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505**

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY  
FOR FISCAL YEAR ENDED JUNE 30, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title 1, # 84.010, Charter Schools # 84.282
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**CITIZENS' ACADEMY  
CUYAHOGA COUNTY  
JUNE 30, 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2000-10818-001	Development and Implementation of purchasing cycle controls	Yes	Finding No Longer Valid: On September 9, 2002, the Board approved a series of policies which outlined purchasing procedures for capital and operating expenditures, along with fixed asset recognition criteria. These procedures were placed into practice prior to the formal adoption and approval by the Board.
2000-10818-002	Development and Implementation of monitoring controls	Yes	Finding No Longer Valid: The School has developed a fiscal oversight policy which establishes monitoring guidelines. This policy was adopted by the Board during the 2002 school year.
2000-18018-003	Development and Implementation of payroll cycle controls	Yes	Finding No Longer Valid: The School has developed a payroll policy. This policy was adopted by the Board during the 2002 school year.



STATE OF OHIO  
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**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  
JANUARY 9, 2003**