



**Auditor of State
Betty Montgomery**

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Intergenerational School
Cuyahoga County
12200 Fairhill Road
Cleveland, Ohio 44120

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Intergenerational School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

March 30, 2006

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited***

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

Financial Highlights

- In total, net assets increased \$4,859, which represents a .09% increase from 2004. This small increase is due primarily to staying within the operating budget.
- Total assets increased \$16,453, which represents a 2.86% increase from 2004. This increase is due, mainly, to an increase in the year-end cash balance of \$16,228.
- Liabilities increased \$11,594, which represents a 15.9% increase from 2004. Accrued wages and benefits payable and intergovernmental payable accounted for nearly all of the increase.
- Operating revenues increased by \$37,255, which represents a 5.2% increase from 2004. The majority of this increase is due to increased state funding, food services, and classroom fees.
- Operating expenses increased by \$51,570, which represents a 6.17% increase from 2004. Operating expense increases are due to an increase in salaries and fringe benefits.
- Non-operating revenue increased by \$5,841, which represents a 4.21 increase from 2004. This increase is due to a large increase in Contributions and Donations of \$17,944 and a large decrease in state operating grants.

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the School, presenting an aggregate view of the School's finances. In case of Intergenerational School, there is only one fund presented.

Reporting the School as a Whole

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

The view of the School as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the School's, current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited
(Continued)***

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

Table 1
Net Assets

| | 2005 | 2004 |
|----------------------------|-------------------|-------------------|
| Assets | | |
| Current Assets | \$ 530,398 | \$ 496,064 |
| Security Deposits | 15,697 | 7,141 |
| Capital Assets, Net | 45,765 | 72,202 |
| <i>Total Assets</i> | <u>\$ 591,860</u> | <u>\$ 575,407</u> |
| Liabilities | | |
| Current Liabilities | \$ 84,344 | \$ 72,750 |
| <i>Total Liabilities</i> | <u>84,344</u> | <u>72,750</u> |
| Net Assets | | |
| Invested in Capital Assets | 45,765 | 72,202 |
| Unrestricted | 461,751 | 430,455 |
| <i>Total Net Assets</i> | <u>\$ 507,516</u> | <u>\$ 502,657</u> |

Table 2 shows the changes in net assets for the year ended 2005. For comparison purposes, data from the June 30, 2004 year-end is reported to the right of the current year's figures.

Table 2
Change in Net Assets

| | 2005 | 2004 |
|--------------------------------|----------------|----------------|
| Revenues | | |
| Operating Revenues: | | |
| Foundation Payments | \$ 519,156 | \$ 462,233 |
| Disadvantaged Pupil Impact Aid | 153,649 | 134,450 |
| Special Education | 30,508 | 2,557 |
| Food Services | 4,382 | 5,012 |
| Classroom Fees | 14,337 | 6,563 |
| Extracurricular Activities | 23,806 | - |
| Other | 1,731 | 99,499 |
| Total Operating Revenue | <u>747,569</u> | <u>710,314</u> |
| Non-Operating Revenues: | | |
| Federal Grants | 97,365 | 95,664 |
| State Grants | 13,913 | 30,749 |
| Interest | 5,729 | 2,697 |
| Contributions and Donations | 27,558 | 9,614 |
| Total Non-Operating Revenues | <u>144,565</u> | <u>138,724</u> |

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

Table 2
Change in Net Assets
(Continued)

| | 2005 | 2004 |
|------------------------|-----------------|------------------|
| Expenses | | |
| Operating Expenses | | |
| Salaries | 497,288 | 432,810 |
| Fringe Benefits | 101,682 | 92,429 |
| Purchased Services | 181,896 | 189,874 |
| Materials and Supplies | 63,413 | 76,235 |
| Depreciation | 33,560 | 32,134 |
| Other Expenses | 9,436 | 12,223 |
| Total Expenses | <u>887,275</u> | <u>835,705</u> |
| Increase in Net Assets | <u>\$ 4,859</u> | <u>\$ 13,333</u> |

There was a increase in revenues of \$37,255 and an increase in expenses of \$51,570 from 2004. Of the increase in revenues, the foundation payments increased by \$56,923. Community Schools receive no support from tax revenues.

The expense for salaries increased by \$64,478, and the expense for fringe benefits increased by \$9,253 from 2004. This was primarily due to an increase in staff during fiscal year 2005. Material and supplies expense decreased by \$12,822 from fiscal year 2004, due to a reduction in material and supplies expenditures. Depreciation expense increased by \$1,426.

Capital Assets

At the end of fiscal year 2005 the School had \$45,765, invested in furniture and equipment, and leasehold improvements, which represented a decrease of \$26,437 from fiscal year 2004. Table 3 shows fiscal year 2005 and fiscal year 2004:

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

| | 2005 | 2004 |
|-------------------------|------------------|------------------|
| Furniture and Equipment | \$ 31,765 | \$ 48,244 |
| Leasehold Improvements | 14,000 | 23,958 |
| Totals | <u>\$ 45,765</u> | <u>\$ 72,202</u> |

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

Debt

At June 30, 2005 the School had no outstanding debt.

Current Financial Issues

The School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2004-2005 school year, there were approximately 96 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2005 amounted to \$5,058 per student.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited
(Continued)***

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Brooke King, Administrator at Intergenerational School, 12200 Fairhill Rd., Cleveland, Ohio 44120 or e-mail at bkingtis@fairhillcenter.org.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Statement of Net Assets
As of June 30, 2005**

Assets:

Current Assets:

| | |
|---------------------------|------------|
| Cash and Cash Equivalents | \$ 471,113 |
| Receivables: | |
| Accounts | 1,629 |
| Intergovernmental | 53,751 |
| Prepaid Items | 3,905 |
| | <hr/> |
| Total Current Assets | 530,398 |

Non-Current Assets:

| | |
|---|------------|
| Security Deposits | 15,697 |
| Capital Assets, Net of Accumulated Depreciation | 45,765 |
| | <hr/> |
| Total Non-Current Assets | 61,462 |
| | <hr/> |
| Total Assets | \$ 591,860 |

Liabilities:

Current Liabilities:

| | |
|------------------------------------|----------|
| Accounts Payable | \$ 4,526 |
| Accrued Wages and Benefits Payable | 53,791 |
| Intergovernmental Payable | 26,027 |
| | <hr/> |
| Total Current Liabilities | 84,344 |
| | <hr/> |
| Total Liabilities | 84,344 |

Net Assets:

| | |
|---|------------|
| Invested in Capital Assets, Net of Related Debt | 45,765 |
| Unrestricted | 461,751 |
| | <hr/> |
| Total Net Assets | \$ 507,516 |

See Accompanying Notes to the Basic Financial Statements

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005**

| | |
|---|-------------------|
| <u>Operating Revenues:</u> | |
| Foundation Payments | \$ 519,156 |
| Disadvantaged Pupil Impact Aid | 153,649 |
| Special Education | 30,508 |
| Food Services | 4,382 |
| Classroom Fees | 14,337 |
| Extracurricular Activities | 23,806 |
| Other Operating Revenues | 1,731 |
| Total Operating Revenues | <u>747,569</u> |
| <u>Operating Expenses:</u> | |
| Salaries | 497,288 |
| Fringe Benefits | 101,682 |
| Purchased Services | 181,896 |
| Materials and Supplies | 63,413 |
| Depreciation | 33,560 |
| Other Operating Expenses | 9,436 |
| Total Operating Expenses | <u>887,275</u> |
| Operating Loss | (139,706) |
| <u>Non-Operating Revenues and Expenses:</u> | |
| Operating Grants - Federal | 97,365 |
| Operating Grants - State | 13,913 |
| Interest | 5,729 |
| Contributions and Donations | 27,558 |
| Total Non-Operating Revenues and (Expenses) | <u>144,565</u> |
| Change in Net Assets | 4,859 |
| Net Assets at Beginning of Year | 502,657 |
| Net Assets at End of Year | <u>\$ 507,516</u> |

See Accompanying Notes to the Basic Financial Statements

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

See Accountant's Compilation Report

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

| | |
|---|-----------------|
| Cash Received from State of Ohio | \$ 682,551 |
| Cash Received from Food Services | 4,382 |
| Cash Received from Classroom Materials & Fees | 14,337 |
| Cash Received from Other Operating Sources | 23,908 |
| Cash Payments to Suppliers for Goods and Services | (261,145) |
| Cash Payments to Employees for Services | (490,577) |
| Cash Payments for Employee Benefits | <u>(94,670)</u> |
| Net Cash Used for Operating Activities | (121,214) |

Cash Flows from Noncapital Financing Activities:

| | |
|--|---------------|
| Operating Grants Received - Federal and State | 111,278 |
| Contributions and Donations | <u>27,558</u> |
| Net Cash Provided by Noncapital Financing Activities | 138,836 |

Cash Flows from Capital and Related Financing Activities:

| | |
|--|----------------|
| Payments for Capital Acquisitions | <u>(7,123)</u> |
| Net Cash Used for Capital and Related Financing Activities | (7,123) |

Cash Flows from Investing Activities:

| | |
|--|--------------|
| Cash Received from Interest on Investments | <u>5,729</u> |
| Net Cash Provided by Investing Activities | 5,729 |

| | |
|--|--------------------------|
| Net Increase in Cash and Cash Equivalents | 16,228 |
| Cash and Cash Equivalents at Beginning of Year | <u>454,885</u> |
| Cash and Cash Equivalents at End of Year | <u><u>\$ 471,113</u></u> |

(Continued)

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Reconciliation of Operating (Loss)
to Net Cash Used for Operating Activities:

| | |
|---|----------------------------|
| Operating Loss | \$ (139,706) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities: | |
| Depreciation | 33,560 |
| Changes in Assets and Liabilities: | |
| Increase in Accounts Receivable | (1,612) |
| Increase in Intergovernmental Receivable | (20,762) |
| Decrease in Prepaid Items | 4,268 |
| Increase in Security Deposits | (8,556) |
| Increase in Accounts Payable | 2,649 |
| Increase in Accrued Wages and Benefits Payable | 6,617 |
| Increase in Intergovernmental Payable | 2,328 |
| Total Adjustments | <u>18,492</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ (121,214)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Financial Statements
as of June 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Intergenerational School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School's mission is to provide students of kindergarten to grade four the knowledge, skills, and habits to be effective and empowered stewards of their community. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was reassigned for operation under a contract with the Ohio Department of Education to the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing in the 2001 academic year. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of an eight-member Board of Trustees. The Board of Trustees is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 6 non-certified and 10 certificated full time teaching personnel who provide services to 96 students.

The School entered into a fiscal agent agreement with the Sponsor. The agreement provides that the Treasurer of the LCESC shall serve as the Chief Fiscal Officer of the School. (See Note 11)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Financial Statements
June 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

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 Statements of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flow provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

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

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

During the fiscal year ended 2005, investments were limited to repurchase agreements. Repurchase agreements are reported at cost.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Financial Statements
June 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

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

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

Amounts awarded under the above named programs for the fiscal year ended 2005 totaled \$767,330.

G. Prepaid Items

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

H. Capital Assets

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

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

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

| <u>Description</u> | <u>Estimate Life</u> |
|-------------------------|----------------------|
| Furniture and Equipment | 5 years |
| Leasehold Improvements | 5 years |

I. 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 the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School presently has no restricted net assets.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Operating Revenues and Expenses

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

K. Estimates

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

L. Security Deposits

The School re-negotiated their lease on April 21, 2005 for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$7,782, is held by the lessor. (See Note 10)

3. DEPOSITS AND INVESTMENTS

At June 30, 2005, the carrying amount of the School's deposits was \$104,324 and the bank balance was \$113,495. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

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

4. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

| Receivables | Amount |
|-------------------------------------|-----------------|
| Accounts | \$ 1,629 |
| Intergovernmental: | |
| Student Intervention GR 1-4 '05 | 1,653 |
| Title IV '05 | 922 |
| Title IIA '05 | 3,915 |
| Total Intergovernmental Receivables | <u>6,490</u> |
| Total Receivables | <u>\$ 8,119</u> |

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

5. CAPITAL ASSETS

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

| | <u>Balance 6/30/2004</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance 6/30/2005</u> |
|----------------------------------|------------------------------|--------------------|-------------------|------------------------------|
| Capital Assets Being Depreciated | | | | |
| Furniture and Equipment | \$ 101,276 | 7,123 | - | 108,399 |
| Leasehold Improvements | 49,789 | - | - | 49,789 |
| Totals Capital Assets | | | | |
| Being Depreciated | <u>151,065</u> | <u>7,123</u> | <u>-</u> | <u>158,188</u> |
| Less Accumulated Depreciation: | | | | |
| Furnitures and Equipment | (53,032) | (23,602) | - | (76,634) |
| Leasehold Improvements | <u>(25,831)</u> | <u>(9,958)</u> | <u>-</u> | <u>(35,789)</u> |
| Total Accumulated Depreciation | <u>(78,863)</u> | <u>(33,560)</u> | <u>-</u> | <u>(112,423)</u> |
| Capital Assets, Net | <u>\$ 72,202</u> | <u>\$ (26,437)</u> | <u>\$ -</u> | <u>\$ 45,765</u> |

6. RISK MANAGEMENT

A. Insurance Coverage

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended 2005, the School contracted with the Cincinnati Insurance Company and the United National Insurance Company with the following insurance coverage:

| | |
|--|-------------|
| Commercial General Liability per Occurrence | \$1,000,000 |
| Commercial General Liability Aggregate | 2,000,000 |
| Commercial General Liability Personal & Advertising Injury | 1,000,000 |
| Commercial Property | 300,000 |
| Crime Coverage (\$250 Deductible) | 50,000 |
| Teacher's Professional Liability per Occurrence | 1,000,000 |
| Teacher's Professional Liability Aggregate | 2,000,000 |
| School Board Legal Liability per Occurrence (\$2,500 Deductible) | 1,000,000 |
| School Board Legal Liability Aggregate | 1,000,000 |
| Sexual Misconduct Liability per Occurrence | 1,000,000 |
| Sexual Misconduct Liability Aggregate | 1,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years. The School owns no property, but leases a facility located at 12200 Fairhill Road, Cleveland, Ohio. (See Note 10)

B. Workers' Compensation

The School makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

6. RISK MANAGEMENT (Continued)

C. Employees Medical, Dental, Vision, Life, and Disability Benefits

The School has contracted through an independent carrier to provide medical, dental, vision, life and disability insurance benefits to all employees who work 37.5 or more hours per week. The School pays \$2,817 of the monthly premiums for all coverage and the employee is responsible for the remaining portions of the premiums for the selected coverage.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute an actuarially determined rate. The current employer rate is 14 percent of annual covered payroll; A portion of the School contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57 percent was the portion used to fund pension obligations; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$12,653, \$10,882, and \$7,199 respectively; 71.06 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$5,069 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement Systems (STRS)

The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS) (Continued)

New members have a choice of three retirement plan options, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC 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 and 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 the DC Plan and the DB. In the Combined Plan, the 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 21, 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 received the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contributions rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$48,218, \$44,981, and \$31,482, respectively; 80.85 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. \$9,641 represents the unpaid contribution for fiscal year 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement system or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, one member has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

8. POST-EMPLOYMENT BENEFITS

The School 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.

STRS Ohio benefit recipients who participate in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$3,709 for the fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS had 111,853 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 survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal year June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For 2005 fiscal year, the School paid \$12,669 to fund health care benefits, including the surcharge.

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the School, the amount to fund health care benefits, including surcharge, equaled \$12,669 for the fiscal year ended June 30, 2005.

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

9. 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..."

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

10. OPERATING LEASES

The School entered into a lease agreement with the Fairhill Center for Aging for use of the property located on 12200 Fairhill Road. The term of the lease commenced August 1, 2004 and will terminate July 31, 2005. The School has the option to renew the lease once for a successive term of twelve months. The monthly charge for rent, including additional rent options, is \$7,915 payable the first of each month. Rent expenses under the lease were \$101,850 for the fiscal year ended June 30, 2005.

On April 21 2005, the School re-negotiated the lease with the Fairhill Center for Aging to extend the lease term from July 1, 2005 to June 31, 2006. The monthly charge for rent, including additional rent options, is \$8,505 payable the first of each month.

11. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Sponsor shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Sponsor two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. A total contract payment of \$13,679 was paid during the year, and a liability in the amount of \$1,355 was accrued as a liability for the fiscal year ended June 30, 2005.

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

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

11. FISCAL AGENT (Continued)

- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

12. PURCHASED SERVICES

For the fiscal year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, and are as follows:

| | |
|------------------------------------|--------------------------|
| Professional and Technical Service | \$ 62,257 |
| Property Services | 99,436 |
| Travel Mileage/Meeting Expense | 9,326 |
| Communications | 5,030 |
| Utilities | 5,571 |
| Contracted Craft or Trade Service | 6 |
| Transportation Services | <u>270</u> |
| Total Purchased Services | <u><u>\$ 181,896</u></u> |

13. CONTINGENCIES

A. Grants

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

B. Litigation

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

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005
(Continued)**

13. CONTINGENCIES (Continued)

C. School Funding

The Ohio Department of Education reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has not yet conducted a review of the School's 2005 student enrollment data and FTE calculations. For the fiscal year ended 2005, The School does not anticipate revenue adjustments based on the results of any such review.

14. RELATED PARTY TRANSACTIONS

A governing board member's spouse was employed at the School during fiscal year 2005. Total compensation to the employee amounted to \$49,125. Also, a member of the board was paid for services as a library consultant. The board member was paid \$1,850 in total for these services.

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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***

Intergenerational School
Cuyahoga County
12200 Fairhill Road
Cleveland, Ohio 44120

To the Board of Trustees:

We have audited the financial statements of the Intergenerational School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated March 30, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

Intergenerational School
Cuyahoga County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and 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 intended 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

March 30, 2006



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

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INTERGENERATIONAL SCHOOL

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 23, 2006**