



**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of the Citizens' Academy, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2000, 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 general-purpose 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, 2000, and the results of its operations and its 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 September 13, 2001 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.

Jim Petro
Auditor of State

September 13, 2001

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CITIZENS' ACADEMY
CUYAHOGA COUNTY

BALANCE SHEET
AS OF JUNE 30, 2000

Assets:

Current Assets:

Cash and Cash Equivalent	\$204,954
Accounts Receivable	1,566
Intergovernmental Receivable	<u>69,704</u>
<i>Total Current Assets</i>	276,224

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation)	<u>203,606</u>
<i>Total Assets</i>	<u><u>479,830</u></u>

Liabilities and Equity:

Current Liabilities:

Accounts Payable	45,922
Due to other Governments	10,844
Accrued Wages and Benefits	<u>32,521</u>
<i>Total Current Liabilities</i>	89,287

Equity:

Retained Earnings	<u>390,543</u>
<i>Total Liabilities and Equity</i>	<u><u>\$479,830</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, 2000**

Operating Revenues:

Foundation Payments	\$659,311
Other State Funding	5,000
Other Operating Revenues	<u>17,313</u>
<i>Total Operating Revenues</i>	<u>681,624</u>

Operating Expenses:

Salaries	645,541
Fringe Benefits	118,645
Purchased Services	282,672
Materials and Supplies	185,244
Depreciation	15,234
Other Operating Expenses	<u>636</u>
<i>Total Operating Expenses</i>	<u>1,247,972</u>
Operating Loss	<u>(566,348)</u>

Non-Operating Revenues:

Federal Grants	78,965
Private Grants and Contributions	676,553
Investment Earnings	<u>7,550</u>
<i>Total Non-Operating Revenues</i>	<u>763,068</u>
Net Income	196,720
Retained Earnings at Beginning of the Year	<u>193,823</u>
Retained Earnings at End of Year	<u><u>\$390,543</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, 2000**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$594,607
Cash Payments to Suppliers for Goods and Services	(450,708)
Cash Payments to Employees for Services	(720,822)
Other Operating Revenues	<u>15,747</u>
Net Cash Used for Operating Activities	<u>(561,176)</u>

Cash Flows from Noncapital Financing Activities:

Non-Operating Grants and Contributions Received	<u>755,518</u>
Net Cash Provided by Noncapital Financing Activities	<u>755,518</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(185,195)</u>
Net Cash Used for Capital and Related Financial Activities	<u>(185,195)</u>

Cash Flows from Investing Activities:

Interest on Investments	<u>7,550</u>
Net Cash Provided by Investing Activities	<u>7,550</u>

Net Increase in Cash and Cash Equivalents	16,697
Cash and Cash Equivalents at Beginning of Year	<u>188,257</u>
Cash and Cash Equivalents at End of Year	<u><u>\$204,954</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, 2000
(Continued)**

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

Operating Loss	<u>(\$566,348)</u>
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	15,234
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(1,566)
Increase in Intergovernmental Receivable	(69,704)
Increase in Accounts Payable	17,843
Increase in Accrued Payroll & Benefits	32,521
Increase in Due to Other Governments	<u>10,844</u>
Total Adjustments	<u>5,172</u>
Net Cash Used for Operating Activities	<u><u>(\$561,176)</u></u>

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, 2000

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** which 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 a 14-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 control **CA's** instructional facility staffed by seven certificated full time teaching personnel who provide services to 110 students.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of **CA** have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. **CA** also applies Financial Accounting Standards Board ("FASB") 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** accounting policies are described below.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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) 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.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Cash and Cash Equivalents

All monies received by **CA** are deposited in the name of **CA** at National City Bank. Investments are managed in an account 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.

4. Fixed Assets and Depreciation.

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. **CA** does not possess any infrastructure. The school maintains a capitalization threshold of \$500.

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

Depreciation of leasehold improvements, classroom materials, and computers and equipment 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.

Fixed Asset Classification	Years
Leasehold Improvements	20
Computers and Equipment	5
Classroom Materials	10

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Intergovernmental Revenues/ Receivables.

CA currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid Program ("DPIA"), the State Special Education Program and Child Nutrition Services. These programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

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 which \$100,000 was received to date in fiscal years 1999 and 2000. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The School has recognized on its balance sheet an "Intergovernmental Receivable" for the amount that is estimated to be refunded to the School by 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 year, compared to the October 1999 enrollment that the School's monthly funding was based upon. The receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year end.

6. Compensated Absences.

Vacation is to be taken in a manner which corresponds with the school calendar, therefore **CA** does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one day per month and cannot be carried into subsequent years. No accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

7. Use of Estimates

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

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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. During fiscal year 2000, the budget was formally revised by the Board of Trustees. Consequently, revenues and expenditures did not materially depart from the budgeted amounts. **CA** also prepares budgets for electronic reporting through the Ohio Department of Education Educational Management Information System (EMIS).

IV. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2000, the carrying amount of **CA** deposits was \$37,560 and the bank balance was \$127,942. Of the bank balance \$100,000 was covered by federal depository insurance and \$27,942 was uninsured and uncollateralized

At fiscal year end June 30, 2000, investments with a fair value in the amount of \$167,394 were on deposit with McDonald & Company in an open ended money market mutual fund. The money market mutual fund is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. Those funds are classified as a cash equivalent on the balance sheet.

V. ACCOUNTS RECEIVABLE

Receivables totaling \$1,566 at June 30, 2000, consisted of uncollected fees for before and after school care.

VI. FIXED ASSETS

A summary of **CA** fixed assets at June 30, 2000, follows:

➤ Leasehold Improvements	\$ 175,604
➤ Computers and Equipment	21,300
➤ Classroom Materials	21,936
➤ Less Accumulated Depreciation	<u>(15,234)</u>
Net Fixed Assets	<u>\$ 203,606</u>

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

VII. PURCHASED SERVICES

Purchased Services include the following:

Occupancy costs	\$90,000
Utilities	31,906
Pupil Support Services	27,204
Instruction	4,112
Administrative	129,270
Other	<u>180</u>
Total	<u>\$282,672</u>

VIII. LEASES

CA leases its facilities from The Temple Tifereth Israel under a five-year lease agreement that ends on June 30, 2004. The lease agreement requires annual lease payments of \$90,000 increasing to \$124,000 plus 9 percent of total revenues received in excess of \$1,346,000, not to exceed \$175,000 and contains three five-year renewal options for an additional fifteen years. Lease payments during the year ended June 30, 2000 totaled \$90,000.

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 2000, **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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

IX. RISK MANAGEMENT (Continued)

2. Workers' Compensation.

CA makes premium payments to the Ohio Worker's Compensation System (WC) for employee injury coverage. As of June 30, 2000 there have been no claims filed by employees with WC.

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 that elects to have coverage. Those employees who are eligible for coverage but choose not to take it are entitled to \$1,000 on a pro rata basis. During the current fiscal year the cost to **CA** for medical, dental and vision insurance benefits was \$49,344.

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 2000, 5.5 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** contribution to SERS for the Fiscal Year Ended June 30, 2000, was \$20,845. For Fiscal Year 2000 employee and **CA**

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

X. DEFINED BENEFIT PENSION PLANS (Continued)

contributions totaling \$4,186 were payable at year end. All other contributions were paid during Fiscal Year 2000.

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, 2000, plan members were required to contribute 9.3 percent of their annual covered salaries. **CA** was required to contribute 14 percent, 6 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** contribution to STRS for the Fiscal Year Ended June 30, 2000, was \$44,873. For Fiscal Year 2000, **CA** contributions totaling \$6,658 were payable at year end. All other contributions were paid during Fiscal Year 2000.

3. Social Security System.

All employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2000, **CA** has no employees or members of the governing board, that contribute to Social Security.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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, 2000, the board allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For **CA**, this amount equaled \$22,807 during fiscal 2000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, for disability and for survivor benefits. 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 6.3 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 2000, the minimum pay has been established at \$12,400. For **CA**, the amount to fund health care benefits, including surcharge, equaled \$9,380.

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.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

XII. STATE SCHOOL FUNDING DECISION (Continued)

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

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of September 13, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, 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.

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.

XIII. 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, 2000.

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 awarded a total of \$150,000 in Federal grants payable over three years and restricted for start up funding, of which \$50,000 was received in each of fiscal years 1999 and 2000 (See note II item 5). 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. The \$50,000 received in fiscal year 2000 is recorded as non-operating revenue in the accompanying financial statements. All funds were used during the year and there is no remaining balance at year end.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

XV. RETAINED EARNINGS

At the fiscal year end June 30, 1999 **CA** had retained earnings in the total amount of \$193,823. These retained earnings were comprised of the following:

Private Grants and Donations	\$215,292
Federal Grant Funds	50,000
Less total start up expense incurred for the period ending June 30, 1999	<u>(71,469)</u>
Retained Earnings June 30, 1999	<u>\$193,823</u>

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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

To the Board of Trustees

We have audited the financial statements of the Citizens' Academy, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2000, and have issued our report thereon dated September 13, 2001. 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*.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2000-10818-001, 2000-10818-002, and 2000-10818-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

Jim Petro
Auditor of State

September 13, 2001

**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2000-10818-001
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Development and Implementation of Purchasing Cycle Controls

Procedures for processing non-payroll disbursements should include, but are not limited to:

- Prior written authorization by management for all purchases;
- Review and approve tally sheets verifying goods or services were received;
- The comparison and approval of invoices, purchase orders, tally sheets and checks prior to making payment, and;
- Review expenditure postings to verify accuracy.

The School does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained by management are not regularly documented (e.g. as part of the minutes). Formal purchase requisitions, purchase orders or tally sheets were not utilized on a regular basis and there was no process in place to match invoices, purchase orders, tally sheets and checks prior to making payment.

We recommend the School utilize purchase requisitions and/or purchase orders to obtain proper authorization before committing school funds. School personnel should also tally goods and services when received. Management should compare invoices, purchase orders, tally sheets and checks prior to authorizing payment. The School should also consider implementing a policy requiring Board approval of all expenditures over a certain dollar amount.

Finding Number	2000-10818-002
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Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management to assess the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management to identify unexpected results and/or possible misstatements.

**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2000-10818-002
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Developing and Implementing an Effective Monitoring Control System (Continued)

Some effective monitoring controls include:

- Regular review of monthly financial statements including budget and actual figures;
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Monitoring compliance with grant agreements;
- Ensuring adequate segregation of duties exists, and;
- Review of monthly cash reconciliations by someone independent of their preparation.

Monthly financial reports are not prepared or presented to the board on a timely basis. In addition, several incompatible job functions were being performed by the same employees. There was no evidence that monthly bank reconciliations were reviewed by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of school funds. It could also lead to non-compliance with federal or state laws or regulations resulting in a loss of funding from these sources.

We recommend management prepare monthly financial statements and submit to the Board for their review. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exist, including an independent review of the monthly bank reconciliation.

Finding Number	2000-10818-003
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Development and Implementation of Payroll Processing Procedures

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts;
- Require hourly employees to complete and sign time sheets and have them approved by a supervisor; and

CITIZENS' ACADEMY
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
June 30, 2000

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

Finding Number	2000-10818-003
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Development and Implementation of Payroll Processing Procedures (Continued)

- Approval and tracking of sick and vacation time used and the balance remaining for each eligible employee;

Seven employees did not have an approved employment agreement or other form of documentation which indicated formal board approval of their employment and authorized pay rate. In addition, there was no documented supervisory review of employee time sheets to authenticate the accuracy and completeness of the time worked by employees nor did the employees sign the time sheets to attest to the accuracy. The School did not effectively approve or track the usage of leave time.

We recommend the Board formally approve employment contracts or pay scales for all employees. In addition, all employees should prepare and sign their time sheets. The time sheets should then be reviewed and approved by their supervisor. Management should also review and certify final payroll for accuracy prior to distributing payroll checks. Finally, the school should also develop a system to track the accumulation and the usage of leave time.



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OFFICE OF THE AUDITOR

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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
OCTOBER 18, 2001**