



**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



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

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, 2001, 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, 2001, 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 April 30, 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.

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

Jim Petro
Auditor of State

April 30, 2002

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**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

Assets:

Current Assets:

Cash and Cash Equivalent	\$ 561,439
Receivables:	
Federal Title Funds	71,293
Foundation Grants	325,000
Intergovernmental	122,704
Other	27,393
Deposits	25,000
Prepaid Expenses	33,620
<i>Total Current Assets</i>	<u>1,166,449</u>

Non-Current Assets:

Fixed Assets (Net of Accumulated Amortization and Depreciation)	<u>748,491</u>
<i>Total Assets</i>	<u><u>1,914,940</u></u>

Liabilities and Equity:

Current Liabilities:

Accounts Payable	204,101
Due to Other Governments	15,102
Accrued Payroll	99,603
Accrued Rent	45,000
<i>Total Current Liabilities</i>	<u>363,806</u>

Equity:

Retained Earnings	<u>1,551,134</u>
<i>Total Liabilities and Equity</i>	<u><u>\$ 1,914,940</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, 2001**

Operating Revenues:

Foundation Payments	\$ 1,067,738
Other Operating Revenues	<u>60,992</u>
<i>Total Operating Revenues</i>	<u>1,128,730</u>

Operating Expenses:

Salaries	891,773
Fringe Benefits	210,813
Purchased Services	349,215
Materials and Supplies	158,397
Depreciation and Amortization	31,919
Other Operating Expenses	<u>24,255</u>
<i>Total Operating Expenses</i>	<u>1,666,372</u>
Operating Loss	<u>(537,642)</u>

Non-Operating Revenues:

Federal and State Grants	272,963
Private Grants and Contributions	1,302,406
Investment Earnings	<u>9,491</u>
<i>Total Non-Operating Revenues</i>	<u>1,584,860</u>
Net Income	1,047,218
Retained Earnings at Beginning of the Year as Restated	<u>503,916</u>
Retained Earnings at End of Year	<u>\$ 1,551,134</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, 2001**

Increase in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 1,067,738
Cash Payments to Suppliers for Goods and Services	(434,734)
Cash Payments to Employees for Services	(1,069,566)
Other Operating Revenues	<u>58,704</u>
Net Cash Used for Operating Activities	<u>(377,858)</u>

Cash Flows from Noncapital Financing Activities:

Non-Operating Grants and Contributions Received	<u>1,160,852</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,160,852</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(492,925)</u>
Net Cash Used for Capital and Related Financial Activities	<u>(492,925)</u>

Cash Flows from Investing Activities:

Proceeds from Sale of Investments	52,464
Interest/Dividends Earned on Investments	<u>10,161</u>
Net Cash Provided by Investing Activities	<u>62,625</u>
Net Increase in Cash and Cash Equivalents	352,694
Cash and Cash Equivalents at Beginning of Year	<u>208,745</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 561,439</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, 2001
(Continued)**

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

Operating Loss	\$ (537,642)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation and Amortization	31,919
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Changes in Assets and Liabilities:

Increase in Accounts Receivable	(2,288)
Increase in Prepaid and Other	(24,540)
Increase in Accounts Payable	68,186
Increase in Accrued Expenses	<u>86,507</u>

Total Adjustments	<u>159,784</u>
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Net Cash Used for Operating Activities	<u>\$ (377,858)</u>
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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, 2001

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. 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. 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 operates under an 18-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 ten certificated full-time teaching personnel who provide services to 178 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** accounting policies are described below.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

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. 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 McDonald & Company. 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.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

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. Donated fixed assets are recorded at their fair market values as of the dates received. 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, 2001

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 \$50,000 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 2001 school year totaled \$1,340,701.

6. Compensated Absences

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

7. Private Grants and Contributions

The School has received funds from various private foundations and individuals to support the Schools educational programs and to assist in meeting the start up expenses. 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.

These funds are recognized as non-operating revenues in the accounting periods in which all eligibility requirements had been met.

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, 2001

IV. DEPOSITS AND INVESTMENTS

At the end of fiscal year June 30, 2001, the carrying amount of **CA** deposits was \$140,168 and the bank balances were \$190,065. Of the bank balances, \$100,000 was covered by federal depository insurance and \$90,065 was uninsured and uncollateralized. As of June 30, 2001, the school had \$440 in undeposited funds.

At the end of fiscal year June 30, 2001, investments with a fair value in the amount of \$420,831 were on deposit with McDonald & Company in open-ended money market mutual funds. The money market mutual funds are an unclassified investment since they are 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. RECEIVABLES/PAYABLES

1. Receivables at June 30, 2001 consisted of Federal Title funds, foundation grants, intergovernmental (e.g., ODE Foundation, Federal and State grants) and Before and After School Care Program fees. All accounts receivable 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.
2. 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 2000 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. The total amount recognized at June 30, 2001 was \$69,704.
3. 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 adjustment 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, 2001.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

VI. FIXED ASSETS

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

Leasehold Improvements	\$361,009
Computers and Equipment	56,714
Classroom Materials and Furniture	60,352
Marketing Materials	1,658
Construction in Progress	313,165
Less Accumulated Depreciation and Amortization	<u>(44,407)</u>
Net Fixed Assets	<u>\$748,491</u>

VII. PURCHASED SERVICES

Purchased Services include the following:

Occupancy Costs	\$ 153,463
Pupil Support Services	46,369
Instruction	20,225
Administrative	77,956
Other	<u>51,202</u>
Total	<u>\$ 349,215</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
2001	\$106,000	\$96,000
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, 2001

VIII. LEASES (CONTINUED)

CA has recorded \$26,000 as base rent payable on the balance sheet. This amount represents the funds due at June 30, 2001 (for fiscal years 2000 and 2001) on the straight-line basis over the life of the lease. In addition, **CA** has recorded additional rent payable of \$19,000 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
2001	\$115,000
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 2001, **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.

2. Workers' Compensation

CA makes premium payments to the Ohio Worker's Compensation System (WC) for employee injury coverage. As of June 30, 2001, 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 who elects to have coverage. Those employees who are eligible for coverage but choose not to take it are entitled to \$1,000 on a pro rata basis. During the 2001 fiscal year, the costs to **CA** for medical, dental and vision insurance benefits were \$60,992.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

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 2001, 4.2 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** contributions to SERS for the fiscal year ended June 30, 2001 were \$14,661. For fiscal year 2001, employee and **CA** contributions totaling \$6,493 were payable at year end. All other contributions were paid during fiscal year 2001.

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.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

X. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2001, 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** contributions to STRS for the fiscal year ended June 30, 2001 were \$47,421. For fiscal year 2001, **CA** contributions totaling \$8,608 were payable at year end. All other contributions were paid during fiscal year 2001.

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, 2001, 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 \$22,469 during fiscal 2001.

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 9.8 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 2001, the minimum pay was established at \$12,400. For **CA**, the amount to fund health care benefits equaled \$34,211 for fiscal 2001.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

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.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of March 20, 2002, 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.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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, 2001.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

XIII. CONTINGENCIES (CONTINUED)

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. For fiscal year 2001 \$50,000 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.

XV. PRIOR PERIOD ADJUSTMENTS

There was an understatement of previously reported net income primarily related to non-governmental donations and contributions receivable that were unreported for the fiscal year ended June 30, 2000. Accordingly, an adjustment for \$113,373 was made to increase retained earnings as of June 30, 2000.

XVI. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2001, **CA** employed both the wife and the son of its Executive Director. The Executive Director's spouse was employed for the entire school year and received \$14,902 for services rendered in the capacities of Enrichment Teacher and Social Work Intern Supervisor. The Executive Director's son performed temporary labor and received total compensation of \$328 during the fiscal year.

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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, 2001, and have issued our report thereon dated April 30, 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*.

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 2001-10818-001, 2001-10818-002 and 2001-10818-003.

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. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the school in a separate letter dated April 30, 2002.

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.



Auditor of State

April 30, 2002

**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2001-10818-001
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Development and Implementation of Purchasing Controls

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

- Prior written authorization by management for all purchases;
- Review and approval of tally sheets verifying that goods or services were received;
- The comparison and approval of invoices, purchase orders, tally sheets and checks prior to making payment, and;
- Review of 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. Subsequent to the audit period, the management of the School developed a purchasing policy which is awaiting Board approval.

Finding Number	2001-10818-002
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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, 2001

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

Finding Number	2001-10818-002 (Continued)
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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; and
- Ensuring adequate segregation of duties.

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 them to the Board for 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 proper segregation of duties including an independent review of the monthly bank reconciliation.

Finding Number	2001-10818-003
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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; and
- Approval and tracking of sick and vacation time used and the balance remaining for each eligible employee.

CITIZENS' ACADEMY
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2001

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

Finding Number

2000-10818-003 (Continued)

Development and Implementation of Payroll Processing Procedures (Continued)

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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**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

<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; <i>Explain:</i>
2000-10818-001	Development and Implementation of purchasing cycle controls	No	Partially corrected: Management has developed a purchasing policy. Although developed this policy has not been approved by the Board. Board approval expected in June 2002. Reissued as 2001-10818-001
2000-10818-002	Development and Implementation of monitoring controls	No	Partially corrected: The School has developed a fiscal oversight policy which establishes monitoring guidelines. Although developed this policy has not been approved by the Board. Board approval expected in June 2002. Reissued as 2001-10818-002
2000-18018-003	Development and Implementation of payroll cycle controls	No	Partially corrected: Management has developed a payroll policy. Although developed this policy has not been approved by the Board. Board approval expected in June 2002. Reissued as 2001-10818-003



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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
JUNE 18, 2002**