



**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**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

We have audited the accompanying financial statements of the Intergenerational School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2003, 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 Intergenerational School, Cuyahoga County, Ohio, as of June 30, 2003, and the results of its operations and 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 7, 2004 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 cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

April 7, 2004

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The Intergenerational School
Cuyahoga County

Balance Sheet
As of June 30, 2003

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$367,296
Intergovernmental Receivables	121,707
Accounts Receivable	5,049
Prepaid Items	<u>2,071</u>
Total Current Assets	<u>496,123</u>

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>56,694</u>
Total Assets	<u><u>552,817</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	3,222
Accrued Wages Payable	25,495
Compensated Absences Payable	10,222
Intergovernmental Payable	<u>24,554</u>
Total Current Liabilities	63,493

Fund Equity

Retained Earnings:	
Unreserved	<u>489,324</u>
Total Fund Equity	489,324
Total Liabilities and Fund Equity	<u><u>\$552,817</u></u>

The accompanying notes are an integral part of the financial statements

The Intergenerational School
Cuyahoga County

Statement of Revenues, Expenses and Changes in Retained Earnings
For the Year Ended June 30, 2003

Operating Revenues

Foundation Payments	\$350,468
Disadvantaged Public Impact Aid	129,853
Special Education	17,121
Food Services	2,811
Classroom Materials and Fees	2,395
Other Operating Revenue	63,572
Total Operating Revenues	<u>566,220</u>

Operating Expenses

Salaries	361,469
Fringe Benefits	90,559
Purchased Services	175,209
Materials and Supplies	17,687
Depreciation	33,350
Other Operating Expenses	9,121
Total Operating Expenses	<u>687,395</u>

Operating Loss (121,175)

Non-Operating Revenues

Operating Grants - Federal	216,326
Operating Grants - State	12,200
Interest Income	3,492
Contributions and Donations	6,450
Total Non-Operating Revenues	<u>238,468</u>

Net Income 117,293

Retained Earnings at Beginning of Year 372,031

Retained Earnings at End of Year \$489,324

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

The Intergenerational School
Cuyahoga County

Statement of Cash Flows
For the Year Ended June 30, 2003

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash received from State of Ohio	\$497,442
Cash received from Food Services	2,811
Cash received from Classroom Materials and Fees	2,420
Cash received from Other Sources	51,876
Cash Payments to Suppliers for Goods and Services	(197,433)
Cash Payments to Employees for Services	(363,812)
Cash Payments for Employee Benefits	(73,513)
Net Cash Used for Operating Activities	<u>(80,209)</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received - Federal	276,615
Operating Grants Received - State	20,875
Contributions and Donations	11,450
Net Cash Provided by Noncapital Financing Activities	<u>308,940</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(60,347)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(60,347)</u>

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>3,492</u>
Net Cash Provided by Investing Activities	<u>3,492</u>

Net Increase in Cash and Cash Equivalents	171,876
Cash and Cash Equivalents at Beginning of Year	195,420
Cash and Cash Equivalents at End of Year	<u><u>\$367,296</u></u>

(Continued)

The Intergenerational School
Cuyahoga County

Statement of Cash Flows
For the Year Ended June 30, 2003
(Continued)

Reconciliation of Operating Income (Loss) to Net

Cash Used for Operating Activities:

Operating Loss (\$121,175)

Adjustments to Reconcile Operating Loss to Net

Cash Used for Operating Activities:

Depreciation 33,350

Changes in Assets and Liabilities:

Increase in Accounts Receivable (5,024)

Increase in Prepaid Items (1,612)

Increase in Accounts Payable 1,275

Increase in Accrued Wages Payable 3,387

Increase in Compensated Absences Payable 565

Increase in Intergovernmental Payable 9,025

Total Adjustments 40,966

Net Cash Used For Operating Activities (\$80,209)

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

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 -- DESCRIPTION OF THE SCHOOL 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 approved for operation under a contract with the Ohio Department of Education (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 Governing Board controls the School's one instructional/support facility staffed by six non-certified and seven certificated full time teaching personnel who provide services to 78 students.

The School entered into a fiscal agent agreement with the Lucas County Educational Service Center, (LCESC). The agreement provides that the Treasurer of the LCESC shall serve as the Chief Fiscal Officer of the School. (See Note 13)

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or before November 30, 1989, 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 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.

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. MEASUREMENT FOCUS/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.

C. 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 School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement.

D. 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 bank accounts in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

In addition to accounts maintained by the fiscal agent, the School maintains a bank account for making small purchases necessary for the daily operations of the School

E. FIXED ASSETS AND DEPRECIATION

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded their fair market value on the date received. The School maintains a capitalization threshold of \$1,000.

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 of furniture and equipment is computed using the straight-line method over an estimated useful life of five years for furniture and four years for equipment. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues 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. Contributions and grants are recognized when the donor makes a promise to give to that is unconditional and are probable of collection.

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.

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

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. COMPENSATED ABSENCES

The criteria for determining vacation is derived from policies and procedures approved by the Board of Trustees. Four members of the staff had vacation leave earned in the current fiscal year that had not been used at year end. The unused vacation amount is shown as a current liability on the balance sheet.

I. PRIVATE GRANTS AND DONATIONS

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

J. ESTIMATES

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

**THE INTERGENERATIONAL SCHOOL
 CUYAHOGA COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

NOTE 3 -- DEPOSITS AND INVESTMENTS

At the end of fiscal year June 30, 2003, the carrying amount of the School's deposits was \$80,067 and the bank balance was \$85,165. Federal depository insurance covered all of the bank balance.

The School's investments are categorized to give an indication of the level of risk assumed by the School at fiscal year end. Category 1 includes investments insured or registered for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the school's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name. The School's investments totaled \$287,229 (reported amount and fair value) and \$86,340 is maintained in a Money Market Sweep Account (repurchase agreement), which is included in Category 3 and \$200,889 is maintained in STAR Ohio which is uncategorized. The School's investment is an unclassified investment since they are not evidenced by securities that exist in physical or book entry form.

NOTE 4 -- RECEIVABLES

Receivables at June 30, 2003, consisted of Federal Title funds, state grants, and private contributions. All receivables from Federal, state and local governments are considered collectable 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.

NOTE 5 -- FIXED ASSETS

A summary of the School's fixed assets follows:

	Balance <u>6/30/03</u>
Furniture & Equipment	\$ 53,634
Leasehold Improvements	<u>49,789</u>
Sub-total	103,423
Less Accumulated Depreciation	<u>(46,729)</u>
Net Fixed Assets	<u>\$ 56,694</u>

NOTE 6 -- PURCHASED SERVICES

Purchased services include the following:

Professional and Technical Services	\$ 92,083
Property Services	71,772
Travel Mileage/Meeting Expense	5,118
Communications	2,013
Contracted Craft or Trade Services	<u>4,223</u>
Total Purchased Services	<u>\$ 175,209</u>

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

NOTE 7 -- 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, 2002 and will terminate July 31, 2003. 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 \$5,720 payable the first of each month. Rent expenses under the lease were \$71,772 for the fiscal year ended June 30, 2003.

NOTE 8 -- RISK MANAGEMENT

A. Property and Liability

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 fiscal year 2003, the School contracted with Indiana/Cincinnati Insurance Co. for all of its insurance.

General Liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregate. Other coverage includes Employee Dishonesty Coverage. Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

B. Worker's 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.

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

The School makes available medical, dental, vision, life and disability insurance benefits to all employees who work 37.5 hours or more per week. The School pays \$1,792 of the monthly premiums for all coverage and the employee is responsible for the remaining portions of the premiums for the selected coverage.

NOTE 9 -- 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 plan members and beneficiaries. Authority to establish and amend benefits is established 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 43215-3746.

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

NOTE 9 -- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and The School is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll; A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2003, 8.17 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 statutory maximum amount, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the year ended June 30, 2003, 2002 and 2001 were \$9,859, \$7,199 and \$2,337; 99.68 percent has been contributed for fiscal year 2003 and 100.00 percent has been contributed for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of \$31 is recorded as a liability.

B. State Teachers Retirement System

The School participates to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, annual cost of living adjustments, and death benefits to members and beneficiaries. STRS Ohio issues a public available stand alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio, 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from 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 are may qualify for survivor benefits. Members of the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

NOTE 9 -- DEFINED BENEFIT PENSION PLANS (Continued)

B. School Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used for pension obligations was 9.5 percent. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS for the year 2003, 2002, and 2001 were \$31,482, \$9,332 and \$9,002; 56.50 percent being paid in 2003 and 100.00 percent has been contributed for fiscal years 2002 and 2001. There is \$3,174 representing the unpaid contribution for fiscal year 2003 that is recorded as an intergovernmental payable.

NOTE 10 -- POST-EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by the premium. By law, the cost of the coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$2,422 for the fiscal year ended June 30, 2003, of which \$245 represented the unpaid contribution as of 6/30/03.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year ended June 30, 2003 the employer contributions to fund health care benefits were 5.83 percent of covered payroll a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay had been established at \$14,500. For The School, the amount to fund health care benefits, including surcharge, was \$16,511 for the fiscal year ended June 30, 2003 of which \$6,193 represented the unpaid contribution as of June 30, 2003.

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

NOTE 10 -- POST-EMPLOYMENT BENEFITS (Continued)

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 health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits as \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000 participants receiving health care benefits.

NOTE 11 -- 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.

NOTE 12 -- 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 is 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 a material adverse effect on the overall financial position of the School at June 30, 2003.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community [i.e. Charter] School Program violates the state's 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 arguments were heard on November 18, 2003.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the school. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. For the fiscal year 2003, the School does not anticipate revenue adjustments based on the results of any such review.

**THE INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

NOTE 13 -- FISCAL AGENT

The School entered into a fiscal agent agreement with the Lucas County Educational Service Center, (LCESC). The agreement provides that the Treasurer of the LCESC shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School is required to compensate the LCESC two percent of the per pupil allotments paid to the School from the State of Ohio. For the year the School paid the LCESC \$7,009.

Based on the provisions of the agreement, the Chief Officer shall perform the following duties:

- Maintain custody of all funds received by the School in segregated accounts separate from Lucas County ESC 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 State;
- Invest funds of the School in the same manner as the funds of LCESC are invested, but the Fiscal Agent shall not commingle the funds with any of the invested funds of the LCESC or any other community school; and
- Pay obligations incurred by the School within a reasonable time period, but 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.

NOTE 14 – SUBSEQUENT EVENTS

Effective December 18, 2003, sponsorship of the School was reassigned from the State Board of Education to the Lucas County Educational Service Center.

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**Auditor of State
Betty Montgomery**

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

Intergenerational School
Cuyahoga County
12200 Fairhill Road
Cleveland, Ohio 44120

We have audited the financial statements of the Intergenerational School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 7, 2004. 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 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 School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the School in a separate letter dated April 7, 2004.

Intergenerational School
Cuyahoga County
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Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of management, audit committee and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 7, 2004

**INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:
2002-10818-001	Finding for Recovery	Yes	No Longer Valid – Finding was paid
2002-10818-002	Finding for Recovery	Yes	No Longer Valid – Finding was paid



**Auditor of State
Betty Montgomery**

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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 25, 2004**