



**Auditor of State
Betty Montgomery**

**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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, 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 Citizens' Academy, 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 November 17, 2003 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 that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

November 17, 2003

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**CITIZENS' ACADEMY
CUYAHOGA COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 413,246
Receivables:	
Gifts and Grants	50,380
Intergovernmental	23,905
Other (Net of Allowance)	7,652
Prepaid Expenses	15,481
<i>Total Current Assets</i>	<u>510,664</u>

Non-Current Assets:

Deposits on Leased and Other Property	15,000
Long-Term Gifts and Grants Receivable	50,000
Assets Permanently Restricted	5,000
Fixed Assets (Net of Accumulated Depreciation and Amortization)	1,535,669
<i>Total Non-Current Assets</i>	<u>1,605,669</u>

Total Assets 2,116,333

Liabilities and Equity:

Current Liabilities:

Accounts Payable	55,574
Due to Other Governments	84,000
Accrued Payroll	118,800
Accrued Rent	65,000
Other	9,389
<i>Total Current Liabilities</i>	<u>332,763</u>

Equity:

Retained Earnings 1,783,570

Total Liabilities and Equity \$ 2,116,333

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, 2003**

Operating Revenues:

Foundation Payments	\$ 1,817,102
Other Operating Revenues	<u>83,227</u>
<i>Total Operating Revenues</i>	<u>1,900,329</u>

Operating Expenses:

Salaries	1,335,916
Fringe Benefits	399,693
Purchased Services	642,116
Materials and Supplies	172,293
Depreciation and Amortization	109,858
Other Operating Expenses	<u>48,679</u>
<i>Total Operating Expenses</i>	<u>2,708,555</u>
Operating Loss	<u>(808,226)</u>

Non-Operating Revenues (Expenses):

Federal and State Grants	428,317
Private Grants and Contributions	521,917
Investment Expenses	<u>(1,435)</u>
<i>Total Non-Operating Revenues</i>	<u>948,799</u>
Net Income	140,573
Retained Earnings at Beginning of the Year	<u>1,642,997</u>
Retained Earnings at End of Year	<u><u>\$ 1,783,570</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, 2003**

Decrease in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 1,794,476
Cash Payments to Suppliers for Goods and Services	(808,218)
Cash Payments to Employees for Services	(1,663,891)
Other Operating Revenues	<u>88,828</u>
Net Cash Used for Operating Activities	<u>(588,805)</u>

Cash Flows from Noncapital Financing Activities:

Non-Operating Grants and Contributions Received	<u>855,398</u>
Net Cash Provided by Noncapital Financing Activities	<u>855,398</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(338,326)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(338,326)</u>

Cash Flows from Investing Activities:

Interest/Dividends Earned on Investments	<u>1,848</u>
Net Cash Provided by Investing Activities	<u>1,848</u>
Net Decrease in Cash and Cash Equivalents	(69,885)
Cash and Cash Equivalents at Beginning of Year	<u>483,131</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 413,246</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, 2003
(Continued)**

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss	\$ (808,226)
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Adjustments to Reconcile Operating Loss to

Net Cash Used for Operating Activities:

Depreciation and Amortization	109,858
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Donated Services	32,655
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Loss on Disposal of Assets	1,067
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Changes in Assets and Liabilities:

Increase in Accounts Receivable	(1,910)
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Increase in Prepaid Expenses	(2,564)
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Increase in Accounts Payable	4,561
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Increase in Accrued Expenses	88,347
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Decrease in Other Current Liabilities	<u>(12,593)</u>
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Total Adjustments	<u>219,421</u>
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Net Cash Used for Operating Activities	<u><u>\$ (588,805)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Non-Cash Operating Activities:

Donated services are recorded at fair value as contribution revenue and as a corresponding expense as services are utilized.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

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. 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**, 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 and continues for a period of five years.

CA operates under a twenty-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 nineteen certificated full-time teaching personnel who provide services to 298 students.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity consists of retained earnings. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

3. Cash and Cash Equivalents

All monies received by **CA** are deposited in the name of **CA** at KeyBank. Investments are managed in accounts with McDonald Investments. 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/Amortization

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

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

6. Compensated Absences

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

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation benefits for non-teaching staff are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that **CA** will compensate the employees for the benefits through paid time off or some other means. **CA** records a liability for accumulated unused vacation time when earned. Accrued vacation pay totaling \$10,048 is reported on the balance sheet under Accrued Payroll.

7. 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

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 Section 5705. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

CA's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School's Principal and Executive Director are responsible for ensuring that purchases are made within these limits. Any variances from the budget are presented to the Board for approval.

IV. DEPOSITS AND INVESTMENTS

At the end of fiscal 2003, the carrying amount of **CA** deposits was \$412,961 and the bank balances were \$396,374. Of the bank balances, \$100,000 was covered by federal depository insurance and \$296,374 was uninsured and uncollateralized. As of June 30, 2003, the school had \$170 in undeposited funds and \$115 in petty cash.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

V. RECEIVABLES

Receivables at June 30, 2003, consisted of private foundation grants, intergovernmental (e.g., Federal and state grants, childcare vouchers), and Before and After School Enrichment and Summer Program fees. All receivables from Federal, State, and local governments are considered collectible in full, due to the stable condition of state programs, the current-year guarantee of Federal funds, and the financial stability of the foundation sources. Non-governmental program fees receivable are shown on the balance sheet net of a \$14,288 allowance for doubtful accounts.

As of the balance sheet date, the Ohio Department of Education (ODE) has not completed its verification of the student full-time equivalents (FTE) upon which the school foundation payments are based. Any difference between the estimated counts and the final verification could result in adjustments to future foundation payments. However, in the opinion of management, any such difference will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

VI. FIXED ASSETS

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

Leasehold Improvements	\$ 1,448,153
Computers, Furniture, and Equipment	135,713
Classroom Materials and Furniture	112,178
Marketing Materials	1,658
Playground Equipment	27,911
Construction in Progress	44,971
Less Accumulated Depreciation and Amortization	<u>(234,915)</u>
Net Fixed Assets	<u>\$ 1,535,669</u>

VII. PURCHASED SERVICES

Purchased Services include the following:

Occupancy Costs	\$ 278,079
Pupil Support Services	126,074
Instruction	62,175
Administrative	160,982
Other	14,806
Total	<u>\$ 642,116</u>

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

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
2003	\$106,000	\$113,000
2004	\$106,000	\$124,000

CA has recorded \$18,000 as base rent payable on the balance sheet. This amount represents the funds due at June 30, 2003, on the straight-line basis over the life of the lease. In addition, **CA** has recorded additional rent payable of \$47,000 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
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 2003, **CA** contracted with Indiana/Cincinnati Insurance Company for all of its insurance.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

IX. RISK MANAGEMENT (Continued)

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregate. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Directors and Officers, Employee Crime, and Sexual Abuse and Misconduct. Settled claims have not exceeded this commercial coverage in any of the past three years, and there have been no significant reductions in insurance coverage from the prior year.

2. Workers' Compensation

CA makes premium payments to the Ohio Workers' Compensation System (WC) for employee injury coverage. As of June 30, 2003, there has been one claim 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 2003 fiscal year, the costs to **CA** for medical, dental, and vision insurance benefits, net of employee contributions of 10 percent of medical premiums, were \$112,657.

X. 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 and survivor 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

X. PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and **CA** is required to contribute at 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 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 a statutory maximum amount, by the SERS' Retirement Board. **CA's** required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$35,861, \$20,143, and \$14,490 respectively; 92 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$3,054 representing the unpaid contribution for fiscal year 2003 is recorded as a liability under "Due to Other Governments."

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 to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 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 the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

X. PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. **CA** was required to contribute 14 percent, 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, 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.

CA's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$114,829, \$62,410, and \$32,179 respectively; 71 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$33,387 representing the unpaid contribution for fiscal year 2003 is recorded as a liability under "Due to Other Governments."

XI. POST-EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For **CA**, this amount equaled \$8,833 during fiscal 2003, of which \$2,568 was payable at June 30, 2003.

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

XI. POST-EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the 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 fiscal years of qualifying service credit, and to 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 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 5.83 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 2003, the minimum pay was established at \$14,500. For fiscal 2003, the amount to fund health care benefits equaled \$34,369, of which \$2,179 was payable at June 30, 2003.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

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

CITIZENS' ACADEMY
— A Community School —
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

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, 2003.

2. Pending Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18, 2003.

XIV. RELATED PARTY TRANSACTIONS

During 2003, **CA** received accounting, tax, and business advisory services from The Wortzman Company, which is owned by a **CA** Board member. Total compensated expenses provided during fiscal 2003 were \$4,831; donated services were \$32,655. Donated services are recorded at fair value as contribution revenue and as a corresponding expense as the services are utilized by **CA**. In addition, **CA** employed the spouse of a Board member in the capacity of classroom teacher with an annual salary consistent with the published salary schedule.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' 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, 2003, and have issued our report thereon dated November 17, 2003. 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*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated November 17, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated November 17, 2003.

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This report is intended for the information and use of management, the 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

November 17, 2003



**Auditor of State
Betty Montgomery**

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CITIZENS' ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 8, 2004**