INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

INTERGENERATIONAL SCHOOL
CUYAHOGA COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Intergenerational School
Cuyahoga County
12200 Fairhill Road
Cleveland, Ohio 44120

We have audited the accompanying basic financial statements of the Intergenerational School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2004, 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial State Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2005 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

March 15, 2005

The discussion and analysis of Intergenerational School's (the School) financial performance provides an overall view of the School's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- In total, net assets increased $13,333, which represents a 2.7% increase from 2003. This increase is due primarily to an increased of state foundation money in the amount of $111,765.

- Total assets increased $22,590, which represents a 4.1% increase from 2003. This increase is due to an increase in the year-end cash balance of $87,589 and an increase in capital assets of $15,508.

- Liabilities increased $9,257, which represents a 14.6% increase from 2003. Accrued wages and benefits payable increased by $21,679 accounting for nearly all of the decrease.

- Operating revenues increased by $144,094, which represents a 25.4% increase from 2003. The majority of this increase ($101,798) is due to increased state funding. Additional increases are the result of food services and classroom fees.

- Operating expenses increased by $148,310, which represents a 21.6% increase from 2003. Operating expense increases are due to an increase in salaries, fringe benefits, and annual increases in purchased services.

- Non-operating revenue decreased by $99,744, which represents a 41.8% decline from 2003. This decrease is due to the $120,662 drop in federal operating grants.

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

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

Reporting the School as a Whole

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

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

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

The School as a Whole

Recall that the Statement of Net Assets provides the perspective of the School as a whole.

Table 1 provides a summary of the School's net assets for 2004 compared to 2003:

Table 1
Statement of Net Assets
(In Thousands)

	2004	2003
Assets		
Current Assets	$ 496.1	$ 496.1
Capital Assets, Net of A/D	79.3	56.7
Total Assets	$ 575.4	$ 552.8
Liabilities		
Current Liabilities	$ 72.7	$ 63.5
Total Liabilities	72.7	63.5
Net Assets		
Invested in Capital Assets, Net of Debt	72.2	-
Unrestricted	430.5	489.3
Total Net Assets	$ 502.7	$ 489.3

Net assets increased $13,333, due primarily to increased foundation payments. For assets, cash increased $87,589, intergovernmental receivables decreased $88,718, accounts receivable decreased $5,032, prepaid items increased by $6,107, and capital assets increased $15,508 from 2003. For liabilities, accounts payable decreased $1,345, intergovernmental payables decreased $855, accrued wages and benefits increased $21,679, and compensated absences payable decreased $10,222 from 2003.

Although the School's net assets increased by $13,333, the unrestricted net assets decreased by $72,202 due to a new accounting principal adopted in 2004. An analysis of cash flows for operating activities in 2004 demonstrates cash payments for activities exceeding unrestricted cash receipts by $90,485. The net cash provided by noncapital financing activities covers the net cash decrease in operating activities.

Table 2 shows the changes in net assets for the year ended 2004. For comparison purposes, data from the June 30, 2003 year-end is reported to the right of the current year's figures.

Operating Activities

Salaries and Fringe Benefits comprise 62.8 percent of operating expenses. There was no interest expense for 2004, due to the fact there is no debt outstanding.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

Table 2
Statement of Revenues, Expenses, and Changes in Net Assets
(In Thousands)

	2004	2003
Operating Revenue		
Foundation Payments	$ 462.2	$ 350.5
Disadvantaged Pupil Impact Aid	134.5	129.8
Special Education	2.6	17.1
Food Services	5.0	2.8
Classroom Fees	6.6	2.4
Other Operating Revenues	99.5	63.6
Total Operating Revenues	710.4	566.2
Operating Expenses		
Salaries	432.8	361.5
Fringe Benefits	92.4	90.5
Purchased Services	189.9	175.2
Materials and Supplies	76.2	17.7
Depreciation Expense	32.1	33.4
Other Operating Expense	12.2	9.1
Total Operating Expenses	835.6	687.4
Non-Operating Revenues and (Expenses)		
Operating Grants – State	30.7	216.3
Operating Grants – Federal	95.7	12.2
Interest Income	2.7	3.5
Contribution and Donations	9.6	6.5
Total Non-Operating Revenues and (Expenses)	$ 138.7	$ 238.5

The dependence upon state foundation revenues for operating activities is apparent. Although general revenues (i.e. miscellaneous revenue) were used to fund instructional activities, the School's general revenue is 14.5 percent of total revenue. The state foundation revenue, as a whole, is by far the primary support for Intergenerational School.

The School's Funds

The School had total revenues of $849,038 and expenses of $835,705. The change in net assets for the year was an increase of $13,333. This increase indicates the School is meeting its obligations as a whole.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004 the School had $151,065 (net of $78,863 in accumulated depreciation) invested in furniture, equipment and leasehold improvements. Table 3 shows 2004 balances compared to 2003:

Table 3
Capital Assets at June 30
(Net of Depreciation, in Thousands)

	2004	2003
Furniture and Equipment	$ 48.2	$ 22.8
Leasehold Improvement	24.0	33.9
Totals	$ 72.2	$ 56.7

Acquisitions were greater than deprecation this year by $15,508. The increase in the furniture and equipment account is a result of the School buying $49,368 in furniture and equipment.

Debt

At June 30, 2004 the School had no outstanding debt.

For the Future

In conclusion, the School has committed itself to financial excellence. In addition, the School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. All of the School's financial abilities will be needed to meet the challenges of the future.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, benefactors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Sonya Williams of Intergenerational School, 12200 Fairhill Rd., Cleveland, Ohio 44120 or e-mail at tis-2_fairhill@fairhillcenter.org.

Intergenerational School
Cuyahoga County

Statement of Net Assets
As of June 30, 2004

Assets:	
Current Assets:	
Cash and Cash Equivalents with Fiscal Agent	$ 454,885
Receivables:	
Accounts	17
Intergovernmental	32,989
Prepaid Items	8,173
Total Current Assets	496,064
Non-Current Assets:	
Security Deposits	7,141
Capital Assets, Net of Accumulated Depreciation	72,202
Total Non-Current Assets	79,343
Total Assets	575,407
Liabilities:	
Current Liabilities:	
Accounts Payable	1,877
Accrued Wages and Benefits Payable	47,174
Intergovernmental Payable	23,699
Total Current Liabilities	72,750
Total Liabilities	72,750
Net Assets:	
Investment in Capital Assets, Net of Related Debt	72,202
Unrestricted	430,455
Total Net Assets	$ 502,657

See Accompanying Notes to the Basic Financial Statements

Intergenerational School
Cuyahoga County

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2004

Operating Revenues:		
Foundation Payments	$	462,233
Disadvantaged Pupil Impact Aid		134,450
Special Education		2,557
Food Services		5,012
Classroom Fees		6,563
Other Operating Revenues		99,499
Total Operating Revenues		710,314
Operating Expenses:		
Salaries		432,810
Fringe Benefits		92,429
Purchased Services		189,874
Materials and Supplies		76,235
Depreciation		32,134
Other Operating Expenses		12,223
Total Operating Expenses		835,705
Operating Loss		(125,391)
Non-Operating Revenues and Expenses:		
Operating Grants - Federal		95,664
Operating Grants - State		30,749
Interest		2,697
Contributions and Donations		9,614
Total Non-Operating Revenues and (Expenses)		138,724
Change in Net Assets		13,333
Net Assets at Beginning of Year		489,324
Net Assets at End of Year	$	502,657

See Accompanying Notes to the Basic Financial Statements

Intergenerational School
Cuyahoga County

Statement of Cash Flows
For the Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State Foundation	$ 599,240
Cash Received from Food Services	5,012
Cash Received from Classroom Materials & Fees	6,563
Cash Received from Other Operating Sources	97,911
Cash Payments to Suppliers for Goods and Services	(277,972)
Cash Payments to Employees for Services	(415,026)
Cash Payments for Employee Benefits	(106,213)
Net Cash Used for Operating Activities	(90,485)
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received - Federal	200,238
Operating Grants Received - State	14,893
Contributions and Donations	9,614
Net Cash Provided by Noncapital Financing Activities	224,745
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(49,368)
Net Cash Used for Capital and Related Financing Activities	(49,368)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	2,697
Net Cash Provided by Investing Activities	2,697
Net Increase in Cash and Cash Equivalents	87,589
Cash and Cash Equivalents at Beginning of Year	367,296
Cash and Cash Equivalents at End of Year	$ 454,885

(Continued)

Intergenerational School
Cuyahoga County

Statement of Cash Flows
For the Year Ended June 30, 2004

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(125,391)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		32,134
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		5,032
Increase in Prepaid Items		(6,102)
Increase in Security Deposits		(7,141)
Increase in Accounts Payable		381
Increase in Accrued Wages Payable		21,679
Decrease in Intergovernmental Payable		(855)
Decrease in Compensated Absences Payable		(10,222)
Total Adjustments		34,906
Net Cash Provided by Operating Activities	$	(90,485)

See Accompanying Notes to the Basic Financial Statements

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

The School operates under the direction of an eight-member Board of Trustees. The Board of Trustees is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by three non-certified and nine certificated full time teaching personnel who provide services to 67 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 Executive Officer of the School. (See Note 14)

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, to its business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School's accounting policies.

A. Basis of Presentation

Enterprise Accounting

The School's basic financial statements consist of statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

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

B. 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 Statements of Net Assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flow reflects how the School finances and meets its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to School on reimbursement basis. Expenses are recognized at the time 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 in addition to preparing a five-year forecast, which is to be updated annually.

D. Cash and Investments

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments (Continued)

During the year ended 2004, investments were limited to repurchase agreements and STAR Ohio. Repurchase agreements are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of $1,000. The School does not possess any infrastructure.

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

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

Description	Estimated Lives
Furniture	5
Equipment	4

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenue from these programs is 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 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences

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

I. Security Deposits

The School re-entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The lessor holds this amount totaling $7,141.

J. Private Grants and Donations

The School has received funds from private foundations and individuals to support the Schools educational programs.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School presently has no restricted net assets.

L. Estimates

The preparation of the 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 may differ from those estimates.

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Trustees and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus," Statement No. 38, "Certain Financial Statement Note Disclosure," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." GASB 34 creates new basic financial statements for reporting on the School's financial activities. The financial statements now include a Statement of Net Assets, Statement of Revenue, Expenses, and Changes in Net Assets, and a Statement of Cash Flows all prepared on an accrual basis of accounting. As a result of this change, certain financial statement amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation.

4. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At June 30, 2004, the carrying amount of the School's deposits was a $84,876 and the bank balance was $93,769. 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 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 total $370,009, of which $167,091 (carrying amount and fair value) is maintained in a Money Market Sweep Account (repurchase agreement) included in Category 3, and $202,918 (fair value) is maintained in a STAR Ohio account, which is uncategorized. The School's investment is an unclassified investment since they are not evidenced by securities that exist in physical or book form.

5. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

5. RECEIVABLES (Continued)

Receivables	Amount
Accounts	$ 17
Intergovernmental	
Student Intervention GR 1-4 '04	211
Title I '04 - Targeted Assistance	9,591
Title IIA '04 - Safe & Drug Free	577
Title IID '04 – Technology	274
FY04 SB – 2 D.P.I.A.	16,922
Federal Food Service Reimbursement – April	5,116
Federal Food Service Reimbursement – June	298
Total Intergovernmental Receivables	32,989
Total Receivables	$ 33,006

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/04
Capital Assets Being Depreciatied:				
Furniture and Equipment	$ 53,634	$ 47,642	$ -	$ 101,276
Leasehold Improvement	49,789	-	-	49,789
Total Assets Being Depreciatied	103,423	47,642	-	151,065
Less Accumulated Depreciation:				
Furniture and Equipment	(30,856)	(22,176)	-	(53,032)
Leasehold Improvements	(15,873)	(9,958)	-	(25,831)
Total Accumulated Depreciation	(46,729)	(32,134)	-	(78,863)
Capital Assets, Net of A/D	$ 56,694	$ 15,508	$ -	$ 72,202

7. PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 80,635
Property Services	87,065
Travel Mileage/Meeting Expense	12,806
Communications	9,123
Utilities	245
Total Purchased Services	$ 189,874

8. 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, 2003 and will terminate July 31, 2004. The School has the option to renew the lease once for a successive term of twelve months. The monthly charge for rent, including additional rent options, is $7,141 payable the first of each month. Rent expenses under the lease were $81,466 for the year ended June 30, 2004.

During August of 2004, the School re-negotiated the lease with the Fairhill Center for Aging to extend the lease term from August 1, 2004 to July 31, 2005. The monthly charge for rent, including additional rent options, is $7,141 payable the first of each month.

9. RISK MANAGEMENT

A. Insurance Coverage

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2004, the School contracted with the Cincinnati Insurance Company and the United National Insurance Company with the following insurance coverage:

Commercial Property ($250 deductible)	$ 100,000
Commercial General Liability per Occurrence	1,000,000
Commercial General Liability Aggregate	2,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Crime Coverage	50,000
Teacher's Professional Liability per Occurrence	1,000,000
Teacher's Professional Liability Aggregate	2,000,000
School Board Legal Liability ($5,000 Deductible) per Occurrence 1,000,000	
School Board Legal Liability Aggregate	1,000,000

The Academy owns no property, but leases a facility located at 12200 Fairhill Road, Cleveland, Ohio. (See Note 8)

B. Workers' Compensation

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

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 $2,158 of the monthly premiums for all coverage and the employee is responsible for the remaining portions of the premiums for the selected coverage.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System (SERS)

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the year ended June 30, 2004, 2003, and 2002 were $10,882, $7,199 and $2,337, respectively; 100 percent has been paid for 2004, 2003 and 2002.

B. State Teachers Retirement Systems (STRS)

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

10. DEFINED BENEFIT PENSION PLANS (Continued)

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

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members were required to contribute 10 percent of their annual covered salary through June 30, 2003 and effective July 1, 2003 the member contribution rate increased to 10% and the School is required to contribute 14%; 13% 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% for members and 14% for employers. The School's contributions for pension obligations to STRS for the years ended June 30, 2004, 2003, and 2002 were $44,981, $31,482, and $9,332, respectively; 74.65% has been contributed for 2004 and 100% for the years 2003 and 2002. $11,403 representing the unpaid contribution for 2004 is recorded as a liability within the respective funds.

STRS Ohio issues a publicly available financial report. Additional information or copies of STRS Ohio's 2003 *Comprehensive Annual Financial Report* may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by visiting the STRS Ohio Web site www.strsoh.org.

11. POST-EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS).

State Teachers Retirement System - The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare B premiums. Pursuant to the Revised Code (R. C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefits recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. Through June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $3,687 for the ended June 30, 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3.1 billion at June 30, 2004 (the latest information available). For June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

State Employees Retirement System - 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.

For this period, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay had been established at $25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School, the amount to fund health care benefits, including surcharge, was $19,845 for the year ended June 30, 2004.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were $223,443,805 and the target level was $335.2 million. At June 30, 2004, the Retirement System’s net assets available for payment of health care benefits as $300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

12. 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.

13. CONTINGENCIES

A. Grants

The School receives significant financial assistance from numerous 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2004.

B. 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. The effect of this suit, if any, on the School is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has not yet conducted a review of the School's 2004 student enrollment data and FTE calculations. For the year ended 2004, the School does not anticipate revenue adjustments based on the results of any such review.

14. FISCAL AGENT

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. A total contract payment of $14,707 was paid during the fiscal year, and a liability in the amount of $1,396 was accrued as a liability for the year ended June 30, 2004.

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

14. FISCAL AGENT (Continued)

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;

- Maintain all books and accounts of the School;

- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;

- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;

- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Fiscal Agent shall not commingle the funds with any of the invested funds of the Sponsor or any other community school; and

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

15. SUBSEQUENT EVENT

In August of 2004, the School renewed its lease with the Fairhill Center for Aging. The lease runs through July of 2005 and requires monthly rent payments of $7,141.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
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, 2004 which comprise the School's basic financial statements and have issued our report thereon dated March 15, 2005, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

Compliance

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

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www.auditor.state.oh.us

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than those specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

March 15, 2005

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 5, 2005