



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

EAGLE HEIGHTS ACADEMY
MAHONING COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Eagle Heights Academy
Mahoning County
1833 Market Street
Youngstown, Ohio 44507

To the Board of Trustees:

We have audited the Balance Sheet of the Eagle Heights Academy, Mahoning County, (the School), as of June 30, 2001, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and the Statement of Cash Flows as of and for the year ended June 30, 2001. 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 Eagle Heights Academy, Mahoning County as of June 30, 2001, 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 July 11, 2002 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the School taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

July 11, 2002

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

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

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$436,093
Receivables:	
Intergovernmental	446,741
Grants	604,390
Other	<u>8,332</u>
TOTAL CURRENT ASSETS	1,495,556

NONCURRENT ASSETS

Fixed assets, net of accumulated depreciation	<u>2,169,908</u>
TOTAL ASSETS	<u><u>\$3,665,464</u></u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable	\$285,384
Accrued expenses	226,545
Notes payable, current portion	<u>805,153</u>
TOTAL CURRENT LIABILITIES	1,317,082

TOTAL LIABILITIES	1,317,082
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FUND EQUITY

Retained earnings	<u>2,348,382</u>
TOTAL FUND EQUITY	<u><u>2,348,382</u></u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$3,665,464</u></u>

The notes to the financial statements are an integral part of this statement.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001**

OPERATING REVENUES

Foundation payments	\$ 4,326,637
Disadvantaged pupil impact aid	857,977
Other	<u>177,794</u>
TOTAL OPERATING REVENUES	5,362,408

OPERATING EXPENSES

Salaries and wages	2,635,940
Fringe benefits	816,876
Purchased services	1,196,303
Materials and supplies	613,312
Depreciation	234,372
Other	<u>42,975</u>
TOTAL OPERATING EXPENSES	<u>5,539,778</u>

OPERATING LOSS (177,370)

NON-OPERATING REVENUES (EXPENSES)

Federal and State grant revenue	1,002,818
Contributions	41,244
Interest earnings	34,298
Interest expense	<u>(38,765)</u>

NET NON-OPERATING REVENUES 1,039,595

NET INCOME 862,225

RETAINED EARNINGS AT BEGINNING OF YEAR 1,486,157

RETAINED EARNINGS AT END OF YEAR \$ 2,348,382

The notes to the financial statements are an integral part of this statement.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State of Ohio	\$ 4,780,173
Cash payments to suppliers for goods and services	(1,650,044)
Cash payments to employees for services and benefits	(3,502,433)
Other operating revenue	<u>75,817</u>
Net cash used for operating activities	(296,487)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from Contributions	41,244
Cash received from State of Ohio - Federal and State grant revenue	<u>667,795</u>
Net cash provided by noncapital financing activities	709,039

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash payments for capital acquisitions	(171,744)
Cash payments on notes payable	(318,009)
Interest payments	<u>(60,765)</u>
Net cash used for capital and related financing activities	(550,518)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>34,298</u>
-------------------------	---------------

NET DECREASE IN CASH AND CASH EQUIVALENTS (103,669)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 539,762

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 436,093

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating loss	\$ (177,370)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	234,372
Changes in assets and liabilities:	
Increase in accounts payable	103,257
(Increase) in other receivable	(446,741)
Increase in accrued expenses	27,674
(Decrease) in intergovernmental payable	(59,679)
Increase in notes payable	<u>22,000</u>
Total adjustments	<u>(119,117)</u>
Net cash used for operating activities	<u><u>\$ (296,487)</u></u>

The notes to the financial statements are an integral part of this statement.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Eagle Heights Academy (the School) is a state nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. 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 contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 1998. The School operates under a self-appointing six-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's one instructional/support facility staffed by 44 non-certified and 67 certified full-time teaching personnel who provide services to 934 students.

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 governmental nonprofit organizations. 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 is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund 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. The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Section 5705, unless specifically provided in the School's contract with its Sponsor. 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 Ohio Revised Code Section 5705.

The School's Board adopts a 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 Principal and Business Manager are responsible for ensuring that purchases are made within these limits.

D. Cash and Cash Equivalents

All cash received by the School is maintained at a central bank. For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

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 at their fair market value as of the date received. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure.

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

Depreciation of furniture and fixtures, textbooks, and equipment is computed using straight line depreciation over estimated useful lives of five to ten years. Leasehold improvements are depreciated over an estimated useful life of 39 or 40 years.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. 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.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Continued)

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.

G. Accrued Expenses

Payroll and withholdings (\$206,696), and retirement surcharge (\$19,849) which are due but unpaid as of June 30, 2001 are reported as Accrued Expenses in the accompanying Balance Sheet.

H. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Federal Tax Exempt Status

On August 23, 1999, the School was granted status as an exempt organization under Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes. 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.

3. DEPOSITS

Deposits: The carrying value of the School's deposits totaled (\$222,907), and the bank balance totaled \$24,717, all of which was covered by federal depository insurance.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or 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.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

3. DEPOSITS (Continued)

Investments of the School as of June 30, 2001 were as follows:

<u>Investments</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Sweep Account	\$659,000	\$659,000	\$659,000

The classification of cash and cash equivalents on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting." A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$436,093	\$0
Investments:		
Sweep Account	<u>(659,000)</u>	<u>659,000</u>
GASB Statement No. 3	<u>(\$222,907)</u>	<u>\$659,000</u>

4. RECEIVABLES

Receivables of the School at June 30, 2001 consisted of the following: federal program grants of \$604,390, \$446,741 of foundation funding due from the Ohio Department of Education and \$8,332 of rent receivable. All federal grant receivables are considered collectible in full, due to the stable condition of the programs.

The School has recognized within its "Intergovernmental receivable" the amount of \$178,538 that is to be funded to the School by the Ohio Department of Education based on the difference in the amount the School actually received versus the amount earned through student full-time equivalent (FTE) enrollment as determined at the end of the year. A receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the FTE enrollment figure was calculated to be at year end.

5. NOTES PAYABLE

At June 30, 2001, the School had the following notes outstanding:

	<u>Issued</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>	<u>Original Note</u>
National City Bank Note:	January 28, 2001	8.00%	\$255,153	\$381,153
National City Bank Note:	September 17, 1998	7.00%	\$550,000	\$550,000

These notes were issued for the purpose of making improvements to the existing school building and are uncollateralized. Payments of principal and interest are due monthly.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. NOTES PAYABLE (Continued)

Notes are statutorily limited to maturing at the end of the year the note was issued if the debt obligates or is collateralized by the State monies received by the School under Ohio Law. The National City Bank Notes, issued and/or renewed during the year, are general in nature and do not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes.

6. FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 2001, follows:

Leasehold Improvements	\$ 1,446,679
Furniture and Fixtures	261,547
Textbooks	305,720
Equipment	<u>656,295</u>
Subtotal	\$ 2,670,241
Less: Accumulated Depreciation	<u>(500,333)</u>
Net Fixed Assets	<u>\$ 2,169,908</u>

7. PURCHASED SERVICES

Purchased Services include the following:

Occupancy Costs	\$ 655,555
Professional Services	337,554
Food Services	94,485
Insurance	32,912
Advertising & Promotion	19,824
Other	<u>55,973</u>
Total	<u>\$ 1,196,303</u>

8. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School contracted with Westfield Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$350,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

8. RISK MANAGEMENT (Continued)

General Star National Insurance Companies provides umbrella liability coverage of \$10,000,000 per occurrence. Director and officer coverage is provided by National Union Fire Insurance Company with a \$1,000,000 aggregate limit and no deductible.

Workers Compensation – The School pays the State Worker’s Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the total monthly gross payroll by a factor determined by the Bureau of Worker’s Compensation.

9. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits – The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 95% of the monthly premium for family and single employees, respectively. The employee is responsible for the remaining percentage. For fiscal year 2001, the School’s and the employees’ premiums were \$444.07 and \$21.45 for family coverage and \$143.24 and \$6.92 for single coverage per employee per month, respectively. The School has also contracted with private carriers to provide dental and vision insurance. The employee is responsible for all of the monthly premium.

Insurance Benefits – The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$15,000 is provided for all certified and non-certified employees. The School pays premiums for this coverage at a rate of \$2.00 per employee per month.

10. 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, public employee retirement system administered by the School Employee Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 2001, 4.2 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS’ Retirement Board within the rates allowed by Ohio statute. The adequacy of the contribution rates is determined annually. The School’s required contributions for pension obligations to SERS for the fiscal year ended June 30, 2001, 2000, and 1999 were \$39,671, \$43,483, and \$59,727 respectively; 99 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The amount of \$214, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within accrued expenses.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School also contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2001, 2000, and 1999 were \$163,031, \$85,925, and \$71,902 respectively; 89 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The amount of \$16,524, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within accrued expenses.

11. POST EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care costs 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. The Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$123,375 during the 2001 fiscal year.

For SERS, coverage is made available to service retirees with ten or more fiscal 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 fiscal year 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$99,702 during the 2001 fiscal year.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

12. LEASE AGREEMENT

The School entered into a ninety-nine year lease agreement. The Lease Agreement terms call for the School to pay rent of 6% of gross revenue, to pay utilities in the amount of \$105,688 annually, to pay maintenance in the amount of \$85,326 annually and security in the amount of \$53,209 annually. The amounts for utilities, maintenance and security will be reviewed annually.

The present value of the minimum lease payments is indeterminable; therefore, the lease is being treated as an operating lease. All base rental is considered contingent rent and amounted to \$248,800 during the 2001 fiscal year.

13. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including;

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order. In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of July 11, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

14. PENDING LITIGATION

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e. Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on Eagle Heights Academy is not presently determinable.

EAGLE HEIGHTS ACADEMY
MAHONING COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001
(Cash Basis)

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	-	10.550		\$2,710		\$2,434
National School Breakfast Program	05-PU	10.553	\$63,404		\$63,404	
National School Lunch Program	03-PU,04-PU	10.555	214,477		214,477	
Total U.S. Department of Agriculture - Nutrition Cluster			277,881	2,710	277,881	2,434
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1	84.010	283,062		621,031	
Special Education Cluster: Special Education Grants to States (IDEA Part B)	6B-SX	84.027	16,770		17,857	
Drug-Free Schools Grant	DR-S1	84.186	2,182		11,871	
Eisenhower Professional Development State Grant	MS-S1	84.281	6,872		14,206	
Innovative Educational Program Strategies	C2-S1	84.298	4,800		11,796	
Class Size Reduction Subsidy	CR-S1	84.340	21,085		64,602	
Total Department of Education			334,771		741,363	
Totals			\$612,652	\$2,710	\$1,019,244	\$2,434

The accompanying notes are an integral part of this schedule.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2001**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B--FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.

NOTE C -- MATCHING REQUIREMENTS

Certain Federal programs require that the School contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Eagle Heights Academy
Mahoning County
1833 Market Street
Youngstown, Ohio 44507

To the Board of Trustees:

We have audited the financial statements of Eagle Heights Academy, Mahoning County, (the School), as of and for the year ended June 30, 2001, and have issued our report thereon dated July 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Eagle Heights Academy'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-11150-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eagle Heights Academy'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 Eagle Heights Academy in a separate letter dated July 11, 2002.

This report is intended for the information and use of the audit committee, the Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end of the last name.

Jim Petro
Auditor of State

July 11, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Eagle Heights Academy
Mahoning County
1833 Market Street
Youngstown, Ohio 44507

To the Board of Trustees:

Compliance

We have audited the compliance of Eagle Heights Academy, Mahoning County, (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about Eagle Heights Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, Eagle Heights Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

The management of Eagle Heights Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, the Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized loop at the end.

Jim Petro
Auditor of State

July 11, 2002

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	YES
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (list):	TITLE I -- CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	NO

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

Finding Number	2001-11150-001
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Noncompliance Citation

Community Schools may issue debt, however, if the debt obligates or is secured by the State monies received by the community school under Ohio Revised Code Section 3314.08 (D), then the debt must be issued in accordance with Ohio Revised Code Section 3314.08 (J) which states, in part, that "the school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed."

Eagle Heights Academy has the following notes that mature later than the end of the fiscal year:

- a. A note from National City Bank in the amount of \$381,153, issued on January 28, 2001 and maturing on June 30, 2002;
- b. A note from National City Bank in the amount of \$550,000 issued on September 17, 1998 and maturing on June 30, 2002;

The notes in question are general in nature. Because the notes do not specifically exclude the School's Ohio Revised Code Section 3314.08 (D) funds from the general collateral provisions, these notes obligate these monies. Therefore, Ohio Revised Code Section 3314.08 (J) would apply.

We recommend that Eagle Heights Academy contact their legal council to reconstruct their debt to comply with this revised code section.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY
JUNE 30, 2001**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2000-11150-001	A teacher with Eagle Heights Academy, took graduate level courses which qualified him for a reimbursement under Board policy. The teacher received a reimbursement at the rate of 75% of his instructional cost, instead of the 50% as allowable under this policy. The over payment was in the amount of \$135.00.	Yes	On June 5, 2001 the Board of Trustees approved in the minutes the over reimbursement to this teacher, absolving him of any additional responsibility in this matter.
2000-11150-002	The salaries paid to the Business Manager Eagle Heights Academy for FY99 and FY00 were incorrect. The authorized salary for the Business Administrator for FY99 was \$35,026.92 but he was paid \$36,168.17. The authorized salary for the Business Administrator for FY00 was \$50,000 but he was only paid \$49,938.66. Therefore, the Business Administrator was overpaid a total of \$1,079.91 for both the 1999 and 2000 fiscal years.	Yes	On June 5, 2001 the Board of Trustees approved in the minutes the over payment made to the Business Manager, absolving him of any additional responsibility in this matter.
2000-11150-003	The School issued notes that mature later than the end of the fiscal year in which such money was borrowed in violation of Ohio Revised Code Section 3314.08 (J).	No	Citation will be reissued as finding No. 2001-11150-001.



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OFFICE OF THE AUDITOR

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EAGLE HEIGHTS ACADEMY

MAHONING 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
AUGUST 27, 2002**