



**Auditor of State
Betty Montgomery**

EAGLE HEIGHTS ACADEMY
MAHONING COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the Balance Sheet of Eagle Heights Academy, Mahoning County, (the School), as of June 30, 2003, 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, 2003. 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, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards expenditures is presented for 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. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

February 17, 2004

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

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

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 81,125
Receivables:	
Grants	772,394
Intergovernmental	<u>67,167</u>
TOTAL CURRENT ASSETS	920,686

NONCURRENT ASSETS

Fixed assets, net of accumulated depreciation	<u>2,567,947</u>
TOTAL ASSETS	<u><u>\$ 3,488,633</u></u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 16,426
Accrued expenses	373,176
Intergovernmental payable	<u>19,860</u>
TOTAL CURRENT LIABILITIES	409,462

LONG TERM LIABILITIES

Note payable	<u>832,795</u>
TOTAL LIABILITIES	1,242,257

FUND EQUITY

Retained earnings	<u>2,246,376</u>
TOTAL FUND EQUITY	<u>2,246,376</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 3,488,633</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, 2003**

OPERATING REVENUES

Foundation payments	\$ 3,993,182
Disadvantaged pupil impact aid	714,372
Other	<u>123,954</u>
TOTAL OPERATING REVENUES	4,831,508

OPERATING EXPENSES

Salaries and wages	3,718,142
Fringe benefits	1,023,921
Purchased services	846,229
Materials and supplies	614,176
Depreciation	269,277
Other	<u>35,928</u>
TOTAL OPERATING EXPENSES	<u>6,507,673</u>

OPERATING LOSS (1,676,165)

NON-OPERATING REVENUES (EXPENSES)

Federal grant revenue	1,535,855
Contributions	9,377
Interest earnings	6,172
Interest expense	<u>(45,264)</u>
NET NON-OPERATING REVENUES	<u>1,506,140</u>

NET LOSS (170,025)

RETAINED EARNINGS AT BEGINNING OF YEAR 2,416,401

RETAINED EARNINGS AT END OF YEAR \$ 2,246,376

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, 2003**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State of Ohio	\$ 5,708,017
Cash payments to suppliers for goods and services	(1,503,033)
Cash payments to employees for services and benefits	(4,713,078)
Other operating revenue	72,214
	<hr/>
Net cash used for operating activities	(435,880)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from Contributions	9,377
Cash received from State of Ohio - Federal and State Grant Monies	871,924
	<hr/>
Net cash provided by noncapital financing activities	881,301

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash payments for capital acquisitions	(131,219)
Cash received from notes payable	34,248
Cash payments on notes payable	(330,204)
Interest payments	(45,264)
	<hr/>
Net cash used for capital and related financing activities	(472,439)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	6,172
	<hr/>

NET DECREASE IN CASH AND CASH EQUIVALENTS (20,846)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

 101,971

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 81,125

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

Operating Loss	\$ (1,676,165)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS
TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation	269,277
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Changes in assets and liabilities:

Decrease in Intergovernmental receivable	948,723
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Increase in accounts payable	7,909
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Increase in accrued expenses	<u>14,376</u>
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Total adjustments	<u>1,240,285</u>
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Net cash used for operating activities	<u><u>\$ (435,880)</u></u>
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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, 2003**

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 and renewed for five years commencing July 1, 2003. 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 34 non-certified and 69 certified full-time teaching personnel who provide services to 861 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) 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 (FASB) 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, 2003
(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 formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School 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 the straight line depreciation method 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.

The Ohio Department of Education conducts reviews of 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. The review resulted in the discovery of an underpayment to the school in the amount of \$1,598.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(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 resources are provided to the School on a reimbursement basis.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

G. ACCRUED EXPENSES

Payroll and withholdings (\$373,176), which are due but unpaid as of June 30, 2003, 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 (\$109,875), and the bank balance totaled \$1,548, 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, 2003
(Continued)**

3. DEPOSITS (Continued)

Investments of the School as of June 30, 2003 were as follows:

<u>Investments</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Sweep Account	\$ 191,000	\$ 191,000	\$ 191,000

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	\$ 81,125	\$ -
Investments:		
Sweep Account	(191,000)	191,000
GASB Statement No. 3	<u>\$ (109,875)</u>	<u>\$ 191,000</u>

4. RECEIVABLES

Receivables of the School at June 30, 2003 consisted of federal Title program grants of \$772,394 and \$67,167 of foundation funding due from the Ohio Department of Education. All receivables are considered collectible in full, due to the stable condition of the programs.

5. NOTE PAYABLE

At June 30, 2003, the School had the following note outstanding:

National City Bank Note

Principal Outstanding \$832,795

Interest Rate 4.75%

This note was issued for the purpose of making improvements to the existing school building and is collateralized by a blanket lien on all business assets. Payments of principal and interest are due monthly. The amounts required to amortize the existing note obligation is as follows:

	<u>National City Bank Note</u>
Year ending June 30:	
2004	\$ 305,662
2005	305,662
2006	<u>305,662</u>
Total	<u>\$ 916,986</u>

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 2003, follows:

Leasehold Improvements	\$ 1,829,028
Building	200,000
Furniture and Fixtures	348,180
Textbooks	458,982
Equipment	<u>798,272</u>
Subtotal	3,634,463
Less: Accumulated Depreciation	<u>(1,066,516)</u>
Net Fixed Assets	<u>\$ 2,567,947</u>

7. PURCHASED SERVICES

Occupancy Costs	\$ 292,378
Professional Services	282,421
Insurance	65,512
Advertising & Promotion	23,883
Computer Maintenance	124,446
Other	<u>57,589</u>
Total	<u>\$ 846,229</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 2003, 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. General Star National Insurance Companies provides umbrella liability coverage of \$10,000,000 per occurrence, as well as aggregate and excess 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.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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 2003, the School's and the employees' premiums were \$490.70 and \$25.82 for family coverage and \$193.08 and \$10.16 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 Employees 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

For fiscal year ended June 30, 2003, plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$13,755, \$71,581 and 39,671, respectively.

B. State Teachers Retirement System

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

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$332,526, \$233,171 and \$163,031, respectively; 93 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$7,493 made by the School District and \$14,876 made by the plan members.

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 retired classified 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 the obligations to contribute are established by the Systems based on authority granted by State statute. Both Systems are on pay-as-you-go basis.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. POST EMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$157,513 during the 2003 fiscal year.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employers 14 percent is allocated to providing health care benefits. For fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits during the 2003 fiscal year 41,376.

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

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 system is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School is unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

13. CONTINGENCIES

A. 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. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed on the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on Eagle Heights Academy is not presently determinable.

B. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

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**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003
(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		\$14,973		\$14,973
National School Breakfast Program	05-PU	10.553	\$80,894		\$80,894	
National School Lunch Program	03-PU,04-PU	10.555	251,329		251,329	
Summer Food Service Program	-	10.559	4,056		4,056	
Total U.S. Department of Agriculture - Nutrition Cluster			336,279	14,973	336,279	14,973
<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	269,377		533,831	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF	84.027	24,980		15,427	
Drug-Free Schools Grant	DR-S1	84.186	4,608		7,221	
Eisenhower Professional Development State Grant	MS-S1	84.281			111	
Community School Start Up Grant	CH-S1	84.282	150,000			
Innovative Educational Program Strategies	C2-S1	84.298	6,227			
Technology Literacy Challenge Grant Funds	TJ-S1	84.318	5,913		4,817	
Improve Teacher Quality	TR-S1	84.367	50,472		73,888	
Total Department of Education			511,577		635,295	
Totals			\$847,856	\$14,973	\$971,574	\$14,973

The accompanying notes are an integral part of this schedule.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

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- CHILD NUTRITION CLUSTER

Program regulations do not require the School to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

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.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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, 2003, and have issued our report thereon dated February 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the School in a separate letter dated February 17, 2004.

This report is intended for the information and use of the audit committee, management, the Board of Trustees, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 17, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO A 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, 2003. 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, 2003.

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, management, the Board of Trustees, 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.



Betty Montgomery
Auditor of State

February 17, 2004

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

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)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<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?	Yes

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

Finding Number	2003-001
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Payroll Reconciliation

The payroll clearing account reconciliation was incomplete as of June 30, 2003. The outstanding check list made available for examination did not reconcile to the payroll clearing account. This situation may lead to the inability of the School to detect accounting errors or other irregularities on a timely basis and of maintaining proper cash management over this account.

To improve this weakness, it is recommended that the payroll account be reconciled on a monthly basis and that an accurate, outstanding checklist be maintained.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	
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None



**Auditor of State
Betty Montgomery**

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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
MAY 18, 2004**