GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Mary Taylor, CPA
Auditor of State

GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Greater Heights Academy
Cuyahoga County
1970 South Taylor Road
Cleveland Heights, Ohio 44118

We were engaged to audit the basic financial statements of the Greater Heights Academy, Cuyahoga County, Ohio (the Academy), as of June 30, 2005 and for the period August 1, 2004 through June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management.

The Academy's management declined to provide written representations related to the financial statements; completeness of information; and recognition, measurement, and disclosure of misstatements, fraud, unasserted claims, undisclosed liabilities, and violations of laws and regulations as required by generally accepted auditing standards.

Since the Academy did not provide the representations described in the preceding paragraph the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

The Academy suffered an operating loss in the amount of $214,616 and a net loss in the amount of $249,854. Management's plan in regard to these matters is described in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009, on our consideration of the Academy'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 accounting principles generally accepted in the United States of America requires. Since we were unable to express an opinion on the basic financial statements, we could not apply certain limited procedures to the required supplementary information. We did not audit the information and express no opinion on it.

Mary Taylor, CPA
Auditor of State

January 16, 2009

The discussion and analysis of the Greater Heights Academy (the Academy) financial performance provides an overall view of the Academy's financial activities for the period August 1, 2004 to June 30, 2005, the initial period of operation. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were $3,496,875.
- Total Liabilities were $3,746,729.
- Total Change in Net Assets was $(249,854).

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (MD&A), the financial statements, and notes to those statements. The financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and 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 Academy, presenting an aggregate view of the Academy's finances. In the case of the Greater Heights Academy, 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 Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" 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 Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 1 provides a summary of the Academy's net assets at June 30, 2005. As this is the initial period of operation, no comparison is made to prior year information:

(Table 1)
Net Assets

Assets	
Current Assets	$ 152,172
Security Deposit	41,667
Capital Assets, Net	3,303,036
Total Assets	3,496,875
Liabilities	
Current Liabilities	902,327
Long Term Liabilities	2,844,402
Total Liabilities	3,746,729
Net Assets	
Invested in Capital Assets	226,395
Unrestricted	(476,249)
Total Net Assets	$ (249,854)

The Statement of Revenues, Expenses, and Changes in Net Assets show 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. Again, since this is the initial period of operation, no comparison is made to the prior year.

Table 2
Change in Net Assets

Operating Revenue	
Foundation Payments	$ 2,422,549
Disadvantaged Pupil Impact Aid	406,579
Special Education	26,722
Other	18
Total Operating Revenues	2,855,868
Operating Expenses	
Salaries	950,830
Fringe Benefits	211,283
Purchased Services	1,388,333
Materials and Supplies	271,491
Cost of Sales	157,928
Depreciation Expense	82,308
Other	8,311
Total Operating Expenses	3,070,484
Operating Loss	(214,616)
Non-Operating Revenues and (Expenses)	
Federal and State Grants	252,166
Interest and Fiscal Charges	(287,404)
Total Non-Operating Revenues and (Expenses)	(35,238)
Increase/(Decrease) in Net Assets	$ (249,854)

State Foundation Payments, Disadvantaged Pupil Impact Aid, and Special Education, as a whole, are the primary support for the Academy, representing 99.9 percent of the operating revenue. Salaries, Fringe Benefits, and Purchased Services comprise 83.1 percent of operating expenses.

The Academy had total revenues of $3,108,034, and total expenses of $3,357,888. The change in net assets for the year was a decrease of $249,854. This decrease shows the Academy can not meet its obligations.

Capital Assets

At the end of period June 30, 2005, the Academy had $3,303,036 (net of $82,308 in accumulated depreciation) invested in capital assets. Table 3 shows balances at June 30, 2005:

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

Building	$ 3,213,859
Computers	9,961
Furniture, Fixtures, and Equipment	29,210
Leasehold Improvments	50,006
Totals	$ 3,303,036

For more information on capital assets, see note 5 to the financial statements.

Debt

At June 30, 2006, the Academy had $3,076,641 in Capital Leases, $232,539 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt at Fiscal Year End

	2006	Due Within One Year
Capital Leases	$3,076,641	$232,539
Total Outstanding Debt at Year End	$3,076,641	$232,539

Current Financial Issues

The inclusion of the Lucas County Educational Service Academy as the Academy's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the period August 1, 2004 to June 30, 2005, there were approximately 372 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,058 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Dr. Joel B. Friedman, Superintendent, 1970 Taylor Road, Cleveland Heights, Ohio or e-mail at mms7622@sbcglobal.net.

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GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY

Statement of Net Assets
As of June 30, 2005

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 48,588
Intergovernmental Receivables	60,410
Prepaid Items	43,174
Total Current Assets	152,172
Noncurrent Assets:	
Security Deposit	41,667
Capital Assets, (Net of Accumulated Depreciation)	3,303,036
Total Noncurrent Assets	3,344,703
Total Assets	3,496,875
Liabilities:	
Current Liabilities:	
Accounts Payable	510,345
Accrued Wages and Benefits Payable	120,209
Intergovernmental Payable	39,534
Capital Lease Payable	232,239
Total Current Liabilities	902,327
Long Term Liabilities:	
Capital Lease Payable	2,844,402
Total Liabilities	3,746,729
Net Assets:	
Invested in Capital Assets, Net of Related Debt	226,395
Unrestricted	(476,249)
Total Net Assets	$ (249,854)

GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY

Statement of Revenues, Expenses and Changes in Net Assets
For the Period August 1, 2004 to June 30, 2005

Operating Revenues:		
Foundation Payments	$	2,422,549
Disadvantaged Pupil Impact Aid		406,579
Special Education		26,722
Other		18
Total Operating Revenues		2,855,868
Operating Expenses:		
Salaries		950,830
Fringe Benefits		211,283
Purchased Services		1,388,333
Materials and Supplies		271,491
Cost of Sales		157,928
Depreciation		82,308
Other		8,311
Total Operating Expenses		3,070,484
Operating Loss		(214,616)
Non-Operating Revenues and Expenses		
Federal and State Grants		252,166
Interest and Fiscal Charges		(287,404)
Total Non-Operating Revenues and Expenses		(35,238)
Change in Net Assets		(249,854)
Net Assets at Beginning of Year		-
Net Assets at End of Year	$	(249,854)

GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY

Statement of Cash Flows
For the Period August 1, 2004 to June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 2,855,850
Cash Received from Other Sources	18
Cash Payments to Suppliers for Goods and Services	(1,400,559)
Cash Payments to Employees for Services	(830,621)
Cash Payments for Employee Benefits	(171,749)
Net Cash Provided By Operating Activities	452,939
Cash Flows from Noncapital Financing Activities:	
Non-Operating Grants-Federal	191,756
Net Cash Provided by Noncapital Financing Activities	191,756
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(96,107)
Principal Payments on Capital Lease	(212,596)
Interest and Fiscal Charge Payments	(287,404)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(596,107)
Net Increase in Cash and Cash Equivalents	48,588
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	$ 48,588

(Continued)

GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY

Statement of Cash Flows
For the Period August 1, 2004 to June 30, 2005
(Continued)

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	Amounts
Operating Loss	$ (214,616)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	82,308
Changes in Assets and Liabilities:	
(Increase) in Prepaid Items	(43,174)
(Increase) in Security Deposits	(41,667)
Increase in Accounts Payable	510,345
Increase in Accrued Wages	120,209
Increase in Intergovernmental Payable	39,534
Total Adjustments	667,555
Net Cash Provided by Operating Activities	$ 452,939

1. DESCRIPTION OF THE REPORTING ENTITY

Greater Heights Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's is a community school in Cleveland Heights, Ohio serving children in grades K-8. The Academy's goal is to employ educators that thrive on seeing children succeed. The success of the child will increase self-esteem and provide opportunities for a rewarding future. The Academy, 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 Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy. This is the initial period of operations.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing April 23, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Sponsor shall serve as the Chief Fiscal Officer of the Academy (See Note 13).

The Academy operates under the direction of a Board of Directors. The Board of Directors 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 Directors controls the Academy's one instructional/support facility staffed by 14 non-certificated, 23 certificated full time teaching personnel who provide services to 373 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before August 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy'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 changes in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

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 provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's 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 on the accrual basis when the exchange takes place.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. 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 contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

E. Cash and Cash Equivalents

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

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Disadvantaged Pupil Impact Aid, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets

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 Academy does not maintain a capitalization policy and does not possess 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 an asset's life are not.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Building	40
Computers	5
Furniture, Fixtures and Equipment	5
Leasehold Improvements	15

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the Academy has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units,” GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” GASB Statement No. 46, Net Assets Restricted by Enabling Legislation” and GASB Technical Bulletin No. 2004-2,” Recognition of Pension and Other Post-employment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.”

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post employment benefit plans.

The implementation of GASB Statements Nos. 39, 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements for the school.

4. DEPOSITS

At fiscal year end June 30, 2005, the carrying amount of the Academy’s deposits was $48,588 and the bank balance was $72,807. Based on the criteria described in GASB statement No. 40. “Deposit and Investment Risk Disclosure, there was no exposure to custodial risk as discussed below, while $72,807 was covered by federal depository insurance.

4. DEPOSITS (Continued)

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no policy for custodial risk beyond requirements of state statute.

5. CAPITAL ASSETS

Capital asset activity for the period August 1, 2004 to June 30, 2005, was as follows:

	Balance 8/1/2004	Additions	Deductions	Balance 6/30/2005
Capital Assets:				
Building	$ -	$ 3,289,237	$ -	$ 3,289,237
Computers	-	10,008	-	10,008
Furniture, Fixtures and Equipment	-	33,707	-	33,707
Leasehold Improvements	-	52,392	-	52,392
Totals Capital Assets	-	3,385,344	-	3,385,344
Less Accumulated Depreciation:				
Building	-	(75,378)	-	(75,378)
Computers	-	(47)	-	(47)
Furniture, Fixtures and Equipment	-	(4,497)	-	(4,497)
Leasehold Improvements	-	(2,386)	-	(2,386)
Total Accumulated Depreciation	-	(82,308)	-	(82,308)
Capital Assets, Net	$ -	$ 3,303,036	$ -	$ 3,303,036

6. CAPITAL LEASE

The Academy entered into a lease with Raintree Academy to lease a school facility. The lease commenced July 1, 2004 and will continue for a period of ten years. The Academy then has an option to renew the term of the lease for nine additional terms of ten years each. Payments made totaled $500,000 for the period August 1, 2004 to June 30, 2005. The amounts to be paid represent more than 90% of the fair market value of the building. The lease meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date.

6. CAPITAL LEASE (Continued)

The following is a schedule of the future minimum payment for the next nine years required under the capital lease as of June 30, 2005:

Fiscal Year Ending June 30,	
2006	$ 500,000
2007	500,000
2008	500,000
2009	500,000
2010	500,000
2011	500,000
2012	500,000
2013	500,000
2014	500,000
Total Minimum Lease payments	$ 4,500,000
Less: Amount representing interest	(1,423,359)
Present Value of Minimum Payments	3,076,641

7. LONG –TERM LIABILITIES

The changes in the Academy long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 8/1/04	Additions	Reductions	Principal Outstanding 6/30/05	Amounts Due Within One Year
Capital Lease Payable	$ -	$ 3,289,237	$ (212,596)	$ 3,076,641	$ 232,539
Total	$ -	$ 3,289,237	$ (212,596)	$ 3,076,641	$ 232,539

8. RISK MANAGEMENT

A. Insurance Coverage

The Academy 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. During the period ending June 30, 2005, the Academy contracted with Philadelphia Insurance Companies for insurance.

Coverage is as follows:

Commercial Property Coverage	$300,000
Business Auto	1,000,000
Commercial General Liability aggregate	2,000,000
Personal & Advertising Injury	2,000,000
Employee Benefits Liability	1,000,000

8. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

For the period August 1, 2004 to June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The current Academy's rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the period ending June 30, 2005 was $45,450; 97.3 percent has been contributed for period August 1, 2004 to June 30, 2005. $1,209 is unpaid for the period ending June 30, 2005. The unpaid portion is recognized as Intergovernmental Payable.

B. State Teachers Retirement Systems

The Academy 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, annual cost of living adjustments, 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. Board Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (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 the final average salary times a percentage that varies based on the years of service or an allowance based on the members contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity rate. The DC Plan allows members to allocate 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 the DC Plan and the DB. In the Combined Plan, the member contributions are invested 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.

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 of the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the members account balance.

For the period August 1, 2004 to June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations for the period August 1, 2004 through June 30, 2005 was $63,265; 86.5 percent has been contributed and $8,555 represents the unpaid contributions for fiscal year 2005. The balance outstanding is recorded as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

10. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

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

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $4,145 for the period August 1, 2004 to June 30, 2005.

The O.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.

For the fiscal year ended June 30, 2004 net health care costs paid by STRS Ohio were $268,739,000. There were 111,853 eligible benefit recipients.

B. State Employees Retirement System

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After allocation of benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, the employer contributions to fund health care benefits was 4.91 percent of covered payroll a decrease of .92% percent from fiscal year 2004. 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 2005, the minimum pay was established at $27,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year was $37,553 of which, all was paid as of June 30, 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), were $223,443,805, and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

12. CONTINGENCIES

A. Grants

The Academy 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 General Fund or other applicable funds. 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 Academy at June 30, 2005.

B. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004 which challenges the funding of Charter Schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. This case is still pending. The effect of this suit, if any, on Greater Heights Academy is not presently determinable.

13. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center (the Sponsor) to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Sponsor two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. Total contract payments of $52,898 were paid during the year, and a liability in the amount of $5,240 was accrued as a liability for the period August 1, 2004 to June 30, 2005.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

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

- Maintain all books and accounts of the Academy;

13. FISCAL AGENT (Continued)

- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;

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

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

- Pay obligations incurred by the Academy 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 Academy so long as the proposed expenditure is within the approved budget and funds are available.

14. PURCHASED SERVICES

For the Period August 1, 2004 to June 30, 2005, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	$ 284,156
Property Services	61,546
Travel	2,656
Communications	97,032
Utilities	128,272
Contracted Craft or Trade Service	632
Pupil Transportation Services	783,218
Other Purchased Services	30,821
Total Purchased Services	$ 1,388,333

15. RELATED PARTY TRANSACTIONS

Dr. Joel Friedman, Superintendent of the Academy is owner of Raintree Academy. Raintree Academy is the lessor of the school facilities and was paid $541,671 in rent and $41,667 in a security deposit. Raintree Academy made expenditures for the Academy during the start up phase of operations in the amount of $126,215 and the Academy reimbursed the same.

16. SUBSEQUENT EVENTS

A. Lease Agreement Additional School Facility

On November 1, 2005, the Academy entered into a lease option agreement with David N. Myers University for a building for school facilities. The term of this lease is approximately nine months commencing November 1, 2005 with monthly lease payments of $11,667. On July 2, 2006 an amendment to the lease option was made where the expiration date would be the earliest of (1) July 31, 2011, (ii) the closing date of the sale of the premises by the Landlord, or (iii) the date set forth in the termination notice provided by the Tenant to Landlord upon no less than one hundred eight days prior written notice to the Landlord and in no event prior to August 1, 2007.

The base rent through the month of August, 2006 is $11,667 and beginning the month of September, 2006, and each month thereafter an amount equal to the interest, letter of credit and remarketing fees, if any, in respect to Bonds owed by the Landlord to the Ohio Higher Educational Facility Commission for State of Ohio Educational Facility Variable Rate Demand Revenue Bonds. In addition to the base rent the Academy shall pay during the months of March, April, May and June of 2006, additional rent in an amount of $20,000 per month and beginning in September 2006 and continuing each month thereafter an amount of $25,000. These additional amounts are again to be paid to reduce the principal balance of the Bonds. Contemporaneously with the execution of this lease, the tenant agrees to pay the land lord (i) the tangible property purchase price, and (ii) a down payment of $110,000. In addition the tenant each month during the period of the commencement date and ending August 31, 2006, shall make a payment equal to the product obtained by multiplying $58.33 by the number of students enrolled in the school in excess of 200.

B. Reassignment of Sponsorship Contract

Effective October 30, 2005 the sponsorship of the Academy was reassigned from the Lucas County Educational Service Center to the ASHE Culture Center, Inc.

C. Fiscal Service Agreement

On November 1, 2005 the Academy entered into a Fiscal Service Agreement with the Mahoning Valley Educational Services Center.

17. MANAGEMENT'S PLAN

For fiscal year 2005, the Academy had an operating loss of $214,616, a net loss of $249,854. Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which will help reduce future deficits and operating losses.

Mary Taylor, CPA
Auditor of State

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

Greater Heights Academy
Cuyahoga County
1970 South Taylor Road
Cleveland Heights, Ohio 44118

To the Board of Directors:

We were engaged to audit the basic financial statements of the Greater Heights Academy, Cuyahoga County, Ohio, (the Academy) as of June 30, 2005 and for the period August 1, 2004 through June 30, 2005, which comprise the Academy's basic financial statements and have issued our report thereon dated January 16, 2009 wherein we did not express an opinion on the financial statements because management declined to provide certain representations as required by Generally Accepted Auditing Standards. We also noted the Academy suffered an operating loss in the amount of $214,616 and a net loss in the amount of $249,854.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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 Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-002 through 2005-004.

A material weakness is a reportable 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 were engaged to audit may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable conditions 2005-002 through 2005-004 listed above to be material weaknesses. In a separate letter to the Academy's management dated January 16, 2009, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 engagement and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 2005-001. In a separate letter to the Academy's management dated January 16, 2009, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, the Board of Directors, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 16, 2009

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

FINDING NUMBER	**2005-001**

Building Lease Agreement

Ohio Rev. Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of his office to secure a public contract in which he, a family member, or a business associate has an interest. Ohio Rev. Code Section 102.03(D) prohibits a public official from authorizing or using the authority or influence of his office, to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official with respect to that person's duty. The exemption in former R. C. 3314.03(A)(11)(e) does not suggest that the General Assembly intended to allow members of the governing boards of community schools to award employment or other contracts to themselves, their family members, or their business associates. Therefore R. C. 2921.42(A)(1) prohibits a member of a community school's governing board from authorizing a contract for himself, and from participating as a board member in matters that affect a contract in which he has an interest. See also R. C. 102.03(D).

During our testing of contracts and leases we noted the Academy entered into a lease agreement with Raintree Academy for a building to be used as a school. The lease agreement was signed May 14, 2004, became effective July 1, 2004, and was signed by Kathryn Nagelski, Vice President of Raintree Academy and Joel Freidman, President of Greater Heights Academy. A review of the minute records of the Board of Directors (as provided) revealed the Academy's Board had not ratified this lease agreement.

Joel Friedman, the Academy's President of the Board of Directors and is also the President of Raintree Academy. Also, Kathryn Nagelski is the Vice President of Raintree Academy and was employed, by Greater Heights Academy as its registrar.

As a result, the Academy made lease payments of $500,000 to Raintree Academy between July 1, 2004 and June 30, 2005.

In addition, the Academy did not have a conflict of interest policy. Without an effective process for identifying and monitoring potential conflicts or conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased.

This matter will be referred to the Ohio Ethics Commission for their review.

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

FINDING NUMBER	**2005-002**

Sponsor Contract Lease Agreements

On April 27, 2004 the Greater Heights Academy, through its President, entered into a Sponsorship Agreement (the Agreement) with the Lucas County Educational Service Center, (the Sponsor). Section 2, point F, of the Agreement provides "The facility to be used for the community school will be maintained at 1970 S. Taylor Road, Cleveland Heights, Ohio. If the facility has been or will be leased, a copy of the lease must be approved in writing by the Sponsor."

The Sponsor provided to us a copy of the lease agreement filed by the Academy. This lease provides the Academy will pay annually $200,000 for the leased premises of 20,000 square feet, which includes the kitchen facility, the gymnasium, 5 administrative offices, restrooms, fifteen classrooms, and computer labs, in equal installments of $16,666.67 per month. In addition, Section 5, point 5.01, provided the lessee, at the lessee's sole cost and expense, shall maintain, repair, and keep the entire Leased Premises in good order and repair.

Based on inquiry of the Academy's Chief Administrator and President of the Board of Directors and the Treasurer of the Board of Directors, we were provided with a copy of a lease agreement between Raintree Academy and Greater Heights Academy. This lease provides the Academy will pay annually $500,000 for the leased premises of 50,000 square feet, which includes the kitchen facility, the gymnasium, 5 administrative offices, restrooms, twenty five classrooms, and computer labs, in equal installments of $41,666.67 per month . In addition, Section 5, point 5.01, provided the lessee, at the lessee's sole cost and expense, shall maintain, repair, and keep the entire Leased Premises in good order and repair.

Two lease agreements exist for the same building neither of which had the approval of the Board of Directors or the Sponsor. Without Board approval financial transactions could be consummated and the funds of the Academy could be committed without the knowledge of the Board and be contrary to the directives of the entire Board.

To help ensure all transactions involving the Academy are in agreement with Board policy, the directives and decisions of the Board are adhered to and to help eliminate misunderstandings, we recommend the Board ratify all financial transactions, including contracts, lease agreements, and amendments to these documents, in the Board minutes. Board review and approval would make certain the Board is aware of all long term financial commitments, and if requested, by the public, the Boards minute record would contain all financial transactions.

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

FINDING NUMBER	**2005-003**

Sponsor Contract Student Transportation

Attachment 12 to Section IV of the Sponsor contract provides "the local school districts will transport our students to and from school. However, as a backup, Angelic Transportation will provide transportation services for extended day/year and for field trips and extracurricular activities when the local school districts are not available." In addition, we also verified the Academy entered into contracts with two bus companies, Sunrise Charter & Tours, Inc. and Community Bus Services, Inc. for student transportation, but no contract was entered into with Angelic Transportation.

On November 29, 2004 the Board, through a resolution, approved "the President/CEO to enter into contracts for or arrange for the transportation needs of the Academy in an amount not to exceed $400,000." Total payments to Angelic Transportation were $346,993.

The Academy was not in compliance with this section of the Sponsor contract because there was no documentation to support that the Academy attempted to arrange with the local school districts.

The possibility of misuse, improper influence, or billing irregularities over transportation charges is increased without a contract.

We recommend if the Board of Directors determines the best interest of the students is served through the Academy transportation of students, the Academy enter into agreements with the various school districts and then be eligible for transportation reimbursements. In addition, the Sponsor should be diligent in its monitoring responsibilities of the financial activity of the Academy and review each section and attachment of the Sponsorship contract to ensure compliance. Also, we recommend to Board reconsider the $400,000 authority of the President/CEO to enter into contracts without a vote of the Board.

FINDING NUMBER	**2005-004**

Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);

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

FINDING NUMBER	**2005-004**

Developing and Implementing an Effective Monitoring Control System (Continued)

- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists;
- Review of monthly bank reconciliations by someone independent of their preparation;
- Review payroll reports to the payroll checks prepared; and,
- Board approval of hiring and salary and/or wage amounts prior to the individual being added to the payroll records and system.

While performing our audit and our review of the minutes of the Board we requested documentation of the following which was not provided:

- Monthly financial statements which were presented to the Board including bank reconciliations and outstanding check listings,
- Proof of review of monthly financial position;
- Review and monitoring of use of grant funds received from the federal and state governments;
- Verification of comparisons of monthly financial activity to the operating budgets prepared; and
- Board approval of hiring and salary and/or wage amounts.

The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend management prepare monthly financial statements and submit them, along with monthly bank reconciliations and listings of outstanding items, to the Board at each regularly scheduled meeting. The Board should then review these statements and when satisfied as to their accuracy approve them through the minute records and attach the financial statements as an addendum to the monthly Board minutes. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. In addition the Board should approve the hiring and wage amounts of all employees of the Academy.

Please note that for the above findings we received no client responses.

GREATER HEIGHTS ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 16, 2009