



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

February 10, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Reports completed prior to that date contain the signature of my predecessor.

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DAVE YOST
Auditor of State

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**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We were engaged to audit the financial statements of Eagle Heights Academy, Mahoning County, (the "Academy") as of and for the year ended June 30, 2008.

Auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards* require us to obtain a written representation letter from management as part of our audit. We were unable to obtain this representation letter from the management of the Academy. As a result, we were unable to satisfy ourselves regarding the revenues, expenses and changes in net assets of the Academy for the year ended June 30, 2008.

Since we were unable to obtain the written representation letter described in the second paragraph above, 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.

As discussed in Note 17, on August 25, 2009, the Ohio Department of Education made the determination that the Academy would terminate operations as of June 30, 2010 due to poor academic performance as defined in Section 3314.35 of the Ohio Revised Code. Also discussed in this note is the Academy's financial position indicating a deficit cash of \$432,403 and an accumulated deficit net assets of \$1,696,684 at June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2010, 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.

The federal awards receipts and expenditures schedule is 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 basic financial statements. Since the Academy was unable to provide a written representation letter as referred to above, we are unable to express and we do not express an opinion on the federal awards receipts and expenditures schedule of the Academy.

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

Mary Taylor, CPA
Auditor of State

December 30, 2010

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The discussion and analysis of the Eagle Heights Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were \$1,337,479 at June 30, 2008.
- The Academy had operating revenues of \$6,624,115 and operating expenses of \$8,430,784 for fiscal year 2008. The Academy also received \$1,814,363 in federal and state grants during fiscal year 2008. Total change in net assets for the fiscal year was an increase of \$86,827.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows

These statements look at all financial transactions and ask the question, "How did we do financially during 2008?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account 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 change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its operations. The Statement of Cash Flows can be found on page 9 of this report.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below provides a summary of the Academy's net assets for fiscal year 2008 and 2007.

Net Assets

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ 385,065	\$ 328,561
Capital assets, net	<u>3,034,163</u>	<u>2,866,447</u>
Total assets	<u>3,419,228</u>	<u>3,195,008</u>
<u>Liabilities</u>		
Current liabilities	2,057,373	1,883,975
Long term liabilities	<u>24,376</u>	<u>60,381</u>
Total liabilities	<u>2,081,749</u>	<u>1,944,356</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,034,163	2,721,559
Unrestricted (deficit)	<u>(1,696,684)</u>	<u>(1,470,907)</u>
Total net assets	<u>\$ 1,337,479</u>	<u>\$ 1,250,652</u>

Over time, net assets can serve as a useful indicator of a government's financial position. The Academy's financial position at June 30, 2008 has improved compared to the prior year as a result of an increase in assets, specifically and primarily the increased assets are contributed to the increase in foundation payments. At June 30, 2008, the Academy's assets exceeded liabilities by \$1,337,479.

At year-end, capital assets represented 89% of total assets. Capital assets consisted of land, leasehold improvements, building, furniture and fixtures, textbooks and equipment. Capital assets are used to provide services to the students and are not available for future spending. The amount invested in capital assets, net of related debt at June 30, 2008 was \$3,034,163. The remaining is a deficit balance in unrestricted net assets of \$1,696,684.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below shows the changes in net assets for fiscal years 2008 and 2007.

Change in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
<u>Operating Revenues:</u>			
Foundation payments	\$ 6,438,248	\$ 5,743,957	12.09 %
Charges for services	7,360	18,892	(61.04) %
Extracurricular	11,246	-	
Other	<u>167,261</u>	<u>147,317</u>	13.54 %
Total operating revenue	<u>6,624,115</u>	<u>5,910,166</u>	12.08 %
<u>Operating Expenses:</u>			
Salaries and wages	4,890,016	4,720,704	3.59 %
Fringe benefits	1,308,847	1,383,006	(5.36) %
Purchased services	1,322,810	1,181,569	11.95 %
Materials and supplies	671,015	1,280,449	(47.60) %
Other	203,298	96,346	111.01 %
Depreciation	<u>34,798</u>	<u>221,027</u>	(84.26) %
Total operating expenses	<u>8,430,784</u>	<u>8,883,101</u>	(5.09) %
<u>Non-operating revenues (expenses):</u>			
Federal and state grants	1,814,363	2,185,995	(17.00) %
Federal donated commodities	47,105	12,364	280.99 %
Interest income	4,224	-	%
Interest and fiscal charges	(17,721)	(30,973)	(42.79) %
Other	<u>45,525</u>	<u>-</u>	
Total non-operating revenues (expenses)	<u>1,893,496</u>	<u>2,167,386</u>	(12.64) %
Change in net assets	86,827	(805,549)	(110.78) %
Net assets at beginning of year	<u>1,250,652</u>	<u>2,056,201</u>	(39.18) %
Net assets at end of year	<u>\$ 1,337,479</u>	<u>\$ 1,250,652</u>	6.94 %

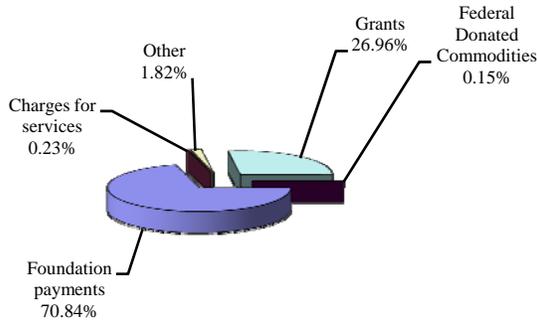
During fiscal 2008, the Academy's net assets increased by \$86,827, from \$1,250,652 to \$1,337,479. Operating revenues increased by \$713,949 (12.08%) and operating expenses decreased by \$452,317 (5.09%). The increase in revenues was due primarily to increased student per pupil funding (\$5,403 in 2007 vs. \$5,565 in 2008) and an increase in state aid.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY, OHIO**

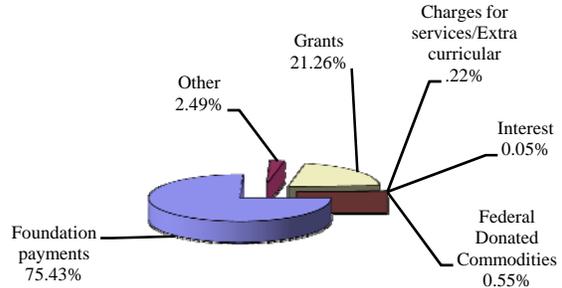
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The charts below illustrate the revenues and expenses for the Academy during fiscal years 2008 and 2007.

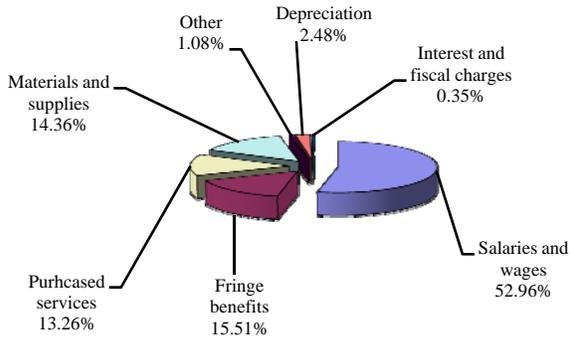
2007 Revenues



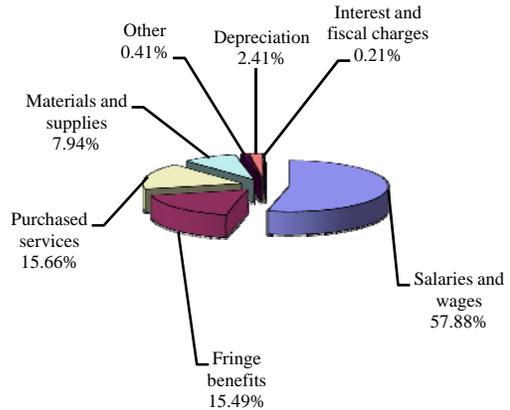
2008 Revenues



2007 Expenses



2008 Expenses



Current Financial Related Activities

The Academy was founded in 1998 and currently operates as an independent non-profit Ohio public charter Academy, sponsored by The Ohio Council of Community Schools.

The Academy is funded through the State's Foundation program, as it receives no local tax monies and cannot charge tuition, levy taxes or issue bonds to raise revenue. Also the Academy receives State and Federal restricted grant aid to supplement the learning process for the students. The Student bodies of the Academy benefit greatly from the Federal Programs dollars in that more than 85% of the children receive free or reduced meals.

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact: Ms. Cherie Cox, Treasurer, Eagle Heights Academy, 1833 Market Street, Youngstown, Ohio 44507.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
<i>Current Assets:</i>	
Equity in pooled cash and cash equivalents. . .	\$ 52,535
Receivables:	
Accounts	1,960
Intergovernmental	308,813
Prepayments	11,776
Materials and supplies inventory.	9,981
	385,065
Total current assets	385,065
<i>Non-Current Assets:</i>	
Land	139,697
Depreciable capital assets, net	2,894,466
Capital assets, net.	3,034,163
Total assets	3,419,228
Liabilities:	
<i>Current Liabilities:</i>	
Accounts payable.	49,785
Accrued wages and benefits	535,807
Pension obligation payable.	231,040
Intergovernmental payable	818,594
Deferred revenue.	246,934
Current portion of capital lease obligation . . .	25,213
Note payable	150,000
	2,057,373
Total current liabilities	2,057,373
<i>Long-term Liabilities:</i>	
Capital lease obligation	24,376
	24,376
Total long-term liabilities	24,376
Total liabilities	2,081,749
Net Assets:	
Invested in capital assets, net	
of related debt.	3,034,163
Unrestricted (deficit).	(1,696,684)
	1,337,479
Total net assets.	\$ 1,337,479

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating revenues:	
Foundation payments	\$ 6,438,248
Charges for services.	7,360
Extracurricular Activities	11,246
Other	167,261
Total revenue	<u>6,624,115</u>
Operating expenses:	
Salaries and wages	4,890,016
Fringe benefits	1,308,847
Purchased services	1,322,810
Materials and supplies	671,015
Depreciation	203,298
Other	34,798
Total expenses	<u>8,430,784</u>
Operating loss	<u>(1,806,669)</u>
Non-operating revenues (expenses):	
Federal and state grants	1,814,363
Investment Income	4,224
Federal donated commodities.	47,105
Interest and fiscal charges	(17,721)
Other	45,525
Total nonoperating revenues (expenses).	<u>1,893,496</u>
Change in net assets	86,827
Net assets at beginning of year.	<u>1,250,652</u>
Net assets at end of year	<u><u>\$ 1,337,479</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:	
Cash received from foundation payments	\$ 6,489,912
Cash received from charges for services	7,962
Cash received from other operations.	594,245
Cash payments for personal services.	(4,702,339)
Cash payments for purchased services	(1,647,051)
Cash payments for materials and supplies	(1,770,108)
Cash payments for other operations	<u>(31,311)</u>
Net cash used in operating activities	<u>(1,058,690)</u>
Cash flows from noncapital financing activities:	
Federal and state grants.	<u>1,814,363</u>
Net cash provided by noncapital financing activities	<u>1,814,363</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(371,014)
Proceeds of notes.	150,000
Principal retirement.	(145,461)
Interest and fiscal charges.	<u>(17,721)</u>
Net cash used in capital and related financing activities	<u>(384,196)</u>
Cash flows from investing activities:	
Interest received	<u>4,224</u>
Net cash provided by investing activities	<u>4,224</u>
Net decrease in cash and cash equivalents	375,701
Cash and cash equivalents at beginning of year . . .	<u>(323,166)</u>
Cash and cash equivalents at end of year.	<u><u>\$ 52,535</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,806,669)
Adjustments:	
Depreciation.	203,298
Federal donated commodities	47,105
Changes in assets and liabilities:	
Increase in accounts receivable	(1,358)
Decrease in intergovernmental receivable.	326,377
Increase in materials and supplies inventory.	(2,377)
Increase in prepayments	(3,445)
Decrease in accounts payable.	(154,357)
Increase in accrued wages and benefits	45,744
Increase in intergovernmental payable.	289,475
Increase in pension obligation payable.	27,517
Decrease in judgements payable.	<u>(30,000)</u>
Net cash used in operating activities.	<u><u>\$ (1,058,690)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Eagle Heights Academy (the "Academy") 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 Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio State Board of Education (the "Sponsor") for a period of five years commencing July 1, 1998 and renewed for two years commencing July 1, 2003. The Academy entered into a new five year sponsorship contract with The Ohio Council of Community Schools commencing July 1, 2005. The Academy operates under a self-appointing six-member Board of Trustees (the "Board"). The Academy'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 Academy's one instructional/support facility staffed by 55 non-certified and 75 certified full-time teaching personnel who provide services to 849 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. 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) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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 Statement of Net Assets.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net 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.

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 Academy's contract with its Sponsor. The contract between the Academy 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 Academy'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 were responsible for ensuring that purchases are made within these limits. Ohio Revised Code Section 5705.391 (A) requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Inspection at the Ohio Department of Education.

D. Cash and Investments

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

The Academy had no investments at June 30, 2008.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of \$1,000. The Academy 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 method over estimated useful lives of five to ten years. Leasehold improvements are depreciated over an estimated useful life of 39 or 40 years.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

G. Intergovernmental Revenues

The Academy 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 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 overpayment to the Academy in the amount of \$3,060. This amount has been reported as an intergovernmental payable at June 30, 2008.

Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year when the 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 resources are provided to the Academy on a reimbursement basis. The remaining grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

H. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories consist of donated food and purchased food that are held for resale and are expensed when used.

I. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items on the Statement of Net Assets. These items are reported as assets on the Statement of Net Assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

J. 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.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Federal Tax Exempt Status

On August 23, 1999, the Academy 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 Academy's tax exempt status.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2008, the Academy has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 established uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 50 established standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS AND INVESTMENTS

At June 30, 2008, the carrying amount of all Academy deposits was a \$52,535. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$100,000 of the Academy's bank balance of \$ 385,155 was covered by the Federal Deposit Insurance Corporation, while \$285,155 was exposed to custodial risk as discussed below.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank 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 investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - RECEIVABLES

Receivables at June 30, 2008, consisted of accounts and intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectable in full. A summary of the intergovernmental receivables follows:

Title I	\$ 139,481
Improving Teacher Quality	15,687
21st Century	23,210
IDEA B	68,438
Food Service	61,880
Early Childhood	<u>117</u>
Total	<u>\$ 308,813</u>

NOTE 6 – LONG-TERM OBLIGATIONS

Changes in the Academy's long-term obligations during fiscal year 2008 were as follows:

	Balance at <u>6/30/2007</u>	Additions	Reductions	Balance at <u>06/30/08</u>	Due Within <u>One Year</u>
Capital lease obligation payable	\$ 105,352	\$ 3,464	\$ (59,227)	\$ 49,589	\$ 25,213
Notes payable	<u>100,000</u>	<u>150,000</u>	<u>(100,000)</u>	<u>150,000</u>	<u>150,000</u>
Total long-term liabilities	<u>\$ 205,352</u>	<u>\$ 153,464</u>	<u>\$ (159,227)</u>	<u>\$ 199,589</u>	<u>\$ 175,213</u>

Capital Lease Obligation: See Note 9 for details.

Notes Payable: During fiscal year 2008, the Academy borrowed money through a line of credit from National City Bank. The line of credit had an interest rate of 8.25%. As of June 30, 2008, the Academy made principal and interest payments on the line of credit of \$100,000 and \$7,792 respectively.

NOTE 7 - CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2008, follows:

Capital Assets	Balance <u>06/30/07</u>	Additions	Deletions	Balance <u>06/30/08</u>
Land	\$139,697	-	-	\$ 139,697
Leasehold Improvements	1,834,542	163,200	-	1,997,742
Building	396,657	-	-	396,657
Furniture and Fixtures	370,695	-	-	370,695
Textbooks	671,766	87,961	-	759,727
Equipment	<u>1,407,031</u>	<u>119,853</u>	-	<u>1,526,884</u>
Total Capital Assets	4,820,388	371,014	-	5,191,402

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - CAPITAL ASSETS (Continued)

Less Accumulated Depreciation:				
Leasehold Improvements	(237,518)	(49,944)	-	(287,462)
Building	(19,870)	(7,933)	-	(27,803)
Furniture and Fixtures	(255,175)	(37,070)	-	(292,245)
Textbooks	(521,449)	(47,655)	-	(569,104)
Equipment	<u>(919,929)</u>	<u>(60,696)</u>	-	<u>(980,625)</u>
Total Accumulated Depreciation	(1,953,941)	(203,298)	-	(2,157,239)
Net Capital Assets	<u>\$2,866,447</u>	<u>\$167,716</u>	<u>\$ -</u>	<u>\$3,034,163</u>

NOTE 8 - PURCHASED SERVICES

Purchased services for fiscal year 2008 include the following:

Professional and Technical Services	\$673,883
Property Services	348,903
Travel Mileage/Meeting Expense	13,685
Communications	67,486
Utilities	209,618
Pupil Transportation Services	<u>9,235</u>
Total Purchased Services	<u>\$1,322,810</u>

NOTE 9 - CAPITAL LEASES – LESSEE DISCLOSURE

The Academy entered into two lease agreements during fiscal year 2004 with Key Municipal Finance for electronic white boards. The Academy also entered into two additional lease agreements during fiscal year 2006 with GE Capital and Bank of America for copiers and another new copier from GE Capital during fiscal year 2008. The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The electronic white boards and copiers have been capitalized in the amount of \$235,526, the present value of the minimum lease payments at the inception of the lease. The book value as of June 30, 2008 was \$49,589. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows:

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - CAPITAL LEASES – LESSEE DISCLOSURE (Continued)

Fiscal Year Ending	<u>June 30</u>	<u>Amount</u>
2009		\$ 29,318
2010		<u>26,390</u>
Total future minimum lease payments		\$ 55,708
Less Amount Representing interest		<u>(6,119)</u>
Present value of future minimum lease payments		<u>\$ 49,589</u>

A liability for capital lease obligations in the amount of \$49,589 is reported on the Statement of Net Assets.

NOTE 10 - OPERATING LEASES

- A. The Academy entered into a five-year operating lease agreement on September 1, 2003 for a parcel of land on the southerly side of Delason Avenue in the City of Youngstown to be used for additional parking for the Academy at a cost of \$4,000 per year. The following is a schedule of the future minimum lease payments required under the operating lease:

Year Ending	<u>June 30</u>	<u>Amount</u>
2008		<u>\$ 4,000</u>

- B. The Academy entered into a lease agreement with the City of Youngstown Parks and Recreation Commission during fiscal year 2008 to lease the premises at 1840 Erie, which is referred to as the Sports Complex, for physical education classes, schedule varsity and junior varsity basketball, volleyball, and football games. The leased premises shall be leased for the term of the 2007-2008 school year. The Academy was to pay a flat rate of \$39,000 to the Lessor payable in three payments due on or before January 11, 2008, April 11, 2008 and June 11, 2008. In fiscal year 2008, the Academy made one payment of \$19,500.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The Academy 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 2008, the Academy contracted with Central Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$1,000,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Company 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, as well as aggregate.

Director and officer coverage is provided by The Central Insurance Company with a \$1,000,000 aggregate limit and no deductible.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - 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 total monthly gross payroll by a factor determined by the Bureau of Worker's Compensation.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Employee Medical, Dental, and Vision Benefits

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 88% of the monthly premium for family, employee and spouse and singles. The employee is responsible for the remaining percentage. For fiscal year 2008, the Academy's and the employees' premiums, respectively, were \$791.27 and \$94.96 for family coverage and \$320.43 and \$38.45 for single coverage per employee per month.

The Academy has also contracted with private carriers to provide dental and vision insurance. As with medical benefits premiums, the District does not pay a percentage of the monthly premium for single and family employees, respectively. The employee is responsible for all of the monthly premiums. The employees' premiums for dental and vision were \$83.09 for family coverage and \$24.29 for single coverage per employee per month.

B. Insurance Benefits

The Academy provides life insurance to all employees through a private carrier. Coverage in the amount of \$20,000 is provided for all certified and non-certified employees. The Academy pays premiums for this coverage at a rate of \$2.40 per employee per month.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (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 plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org under Forms and Publications.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

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 fiscal years ended 2008, 2007, and 2006 were \$95,374, \$114,880, and \$136,320 respectively; 39 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. \$2,411 represents the unpaid pension contribution for fiscal year 2008 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

Plan Description - 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 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, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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.

Funding Policy - For the fiscal year ended June 30, 2008, 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. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

The Academy's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$473,586, \$475,486, and \$475,731 respectively; 85.22 percent has been contributed for fiscal year 2008 and 100 percent has been contributed for fiscal years 2007 and 2006.

NOTE 14 - POST EMPLOYMENT BENEFITS

A. School Employee Retirement Systems

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$21,276.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$65,179, \$39,026, and \$55,255 respectively; 38.99 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$6,872, \$7,166, and \$8,504 respectively; 38.99 percent has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - POST EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$36,430, \$36,576, and \$36,595 respectively; 85.22 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 15 - CONTINGENCIES

A. Grants

The Academy 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.

B. Litigation

The Academy is party to legal proceedings. The Academy's management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the Academy.

NOTE 16 - JOINTLY GOVERNED COUNCIL OF GOVERNMENTS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed Council of Governments organization among 32 school districts, 9 community schools, and 2 private schools. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these school's supports TRECA based upon a per pupil charge, dependent upon the software package utilized. TRECA is governed by a Board of Directors consisting of superintendents of the member school districts.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 16 - JOINTLY GOVERNED COUNCIL OF GOVERNMENTS (Continued)

The degree of control exercised by any participating school district is limited to its representation on the Board. Eagle Heights is a non-voting member of this organization. In the event of the dissolution of TRECA, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. Financial information is available from Mike Carder, Chief Executive Officer, at 100 Executive Drive, Marion, Ohio 43302.

NOTE 17 - SUBSEQUENT EVENT

As of June 30, 2008, the Academy had a deficit cash fund balance of (\$432,403) and deficit unrestricted net assets of (\$1,696,684). The Academy terminated the Treasurer in August, 2009 and a replacement was hired in November, 2009. The Board, Treasurer, representatives from the Academy Sponsor, and the Chief Academic Officer compiled and approved a financial recovery plan in January and March, 2010 in response to their financial crisis.

On August 25, 2009, the Ohio Department of Education made the determination that the Academy would terminate operations as of June 30, 2010 due to poor academic performance with state proficiency standards.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disburse- ments	Non-Cash Disburse- ments
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Donation		10.550	-	\$47,105	-	\$47,105
Nutrition Cluster:						
School Breakfast Program	05-PU	10.553	\$120,951	-	\$120,951	-
National School Lunch Program	03-PU, 04-PU	10.555	<u>325,311</u>	-	<u>325,311</u>	-
Total Department of Agriculture - Nutrition Cluster			<u>446,262</u>	<u>47,105</u>	<u>446,262</u>	<u>47,105</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States	6B-SF	84.027	226,990	-	282,544	-
Title I Grants to Local Educational Agencies	C1-S1	84.010	686,089	-	747,502	-
Safe and Drug Free Schools and Communities - State Grants	DR-S1	84.186	15,289	-	12,521	-
21st Century Community Learning Centers	T1-S1	84.287	189,528	-	226,208	-
Special Education - Preschool Grants		84.173	4,348	-	359	-
State Grants for Innovative Programs	C2-S1	84.298	161	-	0	-
Education Technology State Grants	TJ-S1	84.318	15,048	-	2,712	-
Improving Teacher Quality State Grants	TR-S1	84.367	<u>135,905</u>	-	<u>113,274</u>	-
Total Department of Education			<u>1,273,358</u>	-	<u>1,385,120</u>	-
Totals			<u>\$1,719,620</u>	<u>\$47,105</u>	<u>\$1,831,382</u>	<u>\$47,105</u>

The accompanying notes are an integral part of this schedule.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the "Schedule") reports the Eagle Heights Academy's (the "Academy's") federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

NOTE C - FOOD DONATION PROGRAM

The Academy reports commodities consumed on the Schedule at the fair value. The Academy allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require that the Academy contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Academy has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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*

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

To the Board of Trustees:

We were engaged to audit the financial statements of Eagle Heights Academy, Mahoning County (the "Academy") as of and for the year ended June 30, 2008 and have issued our report thereon dated December 30, 2010, in which we disclaimed an opinion upon the financial statements because we were unable to obtain a written representation letter from the Academy. On August 25, 2009, the Ohio Department of Education made the determination that the Academy would terminate operations as of June 30, 2010.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-001, 2008-002, 2008-004, and 2008-005 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe finding numbers 2008-001, 2008-002, 2008-004, and 2008-005 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated December 30, 2010.

Compliance and Other Matters

To the extent possible, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express 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 items 2008-003 and 2008-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated December 30, 2010.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, the Community School's sponsor, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 30, 2010



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 were engaged to audit the compliance of Eagle Heights Academy, (the "Academy") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We were unable to conduct 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 us to obtain a written representation letter from management as part of our audit. We were unable to obtain this written representation letter from management of the Academy.

As described in findings 2008-006 through 2008-008 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding reporting for its Twenty-First Century Community Learning Centers grant (CFDA #84.287), allowable costs/cost principles for its Child Nutrition Cluster grant (CFDA #10.553, #10.555, #10.556, and #10.559), and other requirements for all of its federal programs. Compliance with these requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to these programs.

Since the Academy could not present a written representation letter, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on whether the Academy had complied with the requirements referred to in the first paragraph.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Academy's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2008-006 through 2008-008 to be significant deficiencies.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider findings 2008-006 through 2008-008 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Academy's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated December 30, 2010.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, the Community School's sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 30, 2010

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Disclaimer
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants To Local Educational Agencies (CFDA #84.010) Twenty-First Century Community Learning Centers grant (CFDA #84.287)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER - 2008-001

Material Weakness – Cash and Payroll Reconciliations

The Academy does not perform monthly bank reconciliations for the regular or payroll accounts. Reconciliations are only performed after the fiscal year has ended. This situation has led to the inability of the Academy to detect accounting errors or other irregularities on a timely basis and of maintaining proper cash management over these accounts. It also resulted in seven adjustments to the financial statements and the accounting records totaling \$106,413. These adjustments were posted to the ledgers on 11/20/2008.

To improve this weakness, we recommend that these accounts be reconciled on a monthly basis and that any errors or mispostings be corrected on a timely basis. The Academy should also ensure that all reconciling items are sufficiently supported by documentation. Finally, the Business Manager should include the monthly reconciliations into the report package that is given to the Board at their monthly meeting so that they can be kept informed of the financial position of the Academy. This will help improve financial accountability for all expenditures and reduce the risk of misappropriation of Academy assets.

Officials' Response:

In order to maintain segregation of duties and establish an effective system of internal controls, Eagle Heights has begun a practice whereby the Treasurer performs monthly reconciliations of all cash accounts. The Treasurer does not prepare checks and is not a check signor. EHA will institute a written policy for internal control which will include requiring monthly cash reconciliations and provision of same to the Board of Directors.

FINDING NUMBER - 2008-002

Material Weakness – Control Environment

Internal control is a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance of achieving the following objectives:

- Reliable financial reporting
- Effective and efficient operations
- Compliance with laws and regulations.

Components of the internal control process include the establishment of an effective control environment. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

Control environment factors include:

- Integrity and ethical values.
- Commitment to competence.
- Governing board or audit committee participation.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility (i.e. job descriptions).
- Human resource policies and practices.

**FINDING NUMBER - 2008-002
(Continued)**

- Governmental control environments should also address compliance with laws, regulations, contracts, and grant transactions.
- Segregation of duties in the Business Manager/Treasurer's office.

The Business Manager was responsible for and performing all of the recording of revenue, whether received in the form of cash, check, or wire transfer, and is also responsible for making bank deposits and performing monthly bank reconciliations.

One person performing all three of these functions increases the possibility that errors or irregularities may occur and not be detected in a timely manner. All of the Academy's checks are rubber stamp approved by the Business Manager and a Board Member.

This situation establishes a weak, ineffective control environment which could lead to unreliable financial reporting, ineffective and inefficient operations and noncompliance with laws and regulations.

The Business Manager was terminated effective 2/2/2009 and was replaced by an interim Treasurer.

We recommend management delegate the responsibilities of depositing monies received in the form of cash or check to another employee (e.g. the Principal of the Academy or Secretary to the Business Manager). This would establish some segregation of duties in the revenue cycle. Although the majority of the Academy's revenue is wire transferred into its bank accounts from the State of Ohio, reasonable steps should be taken to minimize the risk of errors or irregularities occurring with respect to liquid and portable assets such as cash. This will help to ensure the achievement of reliable financial reporting, effective and efficient operations and compliance with laws and regulations.

Officials' Response:

In order to maintain segregation of duties as part of an effective system of internal controls, Eagle Heights Academy has instituted a practice whereby the Fiscal Assistant will receive and log monies, the Treasurer will post receipts to the computerized accounting system and the EMIS/Fiscal Assistant will reconcile receipts to the log, prepare deposits and deliver to the bank. EHA will institute a written internal control policy to this effect.

FINDING NUMBER - 2008-003

Material Citation

Ohio Revised Code Section 3314.03(A)(11)(d) states that community schools will comply with certain provisions of the Ohio Revised Code, including section 5705.391. **Ohio Revised Code Section 5705.391** requires schools to submit five year projections of operational revenues and expenditures.

The spending plan on file with the Academy was submitted to the Ohio Department of Education on October 31, 2007 and included inaccurate fund cash balances on the report as noted below:

**FINDING NUMBER - 2008-003
 (Continued)**

Five Year Financial Forecast at June 30:

Financial Forecast Fiscal Year	Forecast Fund Cash Balance	Audited Fund Cash Balance	Variance
2005	\$ 495,199	\$441,809	\$ (53,390)
2006	\$2,342,235	\$ 26,427	\$(2,315,808)
2007	\$1,820,727	\$(323,166)	\$(2,143,893)
2008	\$2,096,454	\$(432,403)	\$(2,528,857)

The Academy could not provide the documentation to support the five year projections.

The spending plan gives the Academy's management, its sponsor, and the Ohio Department of Education an indication of the Academy's current and future financial position. It could also provide an indication of the possibility of "going concern" conditions that would require the attention of the Academy's management and sponsor.

We recommend that the Academy utilize accurate financial information when preparing the Academy's five year forecast and to maintain documentation to support the information that is contained in the forecast.

Officials' Response:

The Treasurer has updated the five year forecast to reflect current available financial information from the computerized accounting system, which includes unaudited figures from Fiscal Years 2008 and 2009 and budgeted figures from FY 2010. Supporting documentation is on file in the Business Office.

FINDING NUMBER - 2008-004

Material Citation and Material Weakness

26 U.S.C. Sections 3102 and 3402 require the employing government to withhold federal and employment-related taxes (such as Medicare and Social Security) from each employee. Furthermore, these chapters hold employers liable for reporting and payment of these taxes.

The Academy properly withheld Federal income taxes from employee payroll checks but did not file a return and remit the taxes to the Federal Government. The amount withheld from employees and not paid during fiscal year 2008 was \$303,823 (federal withholdings) and \$100,201 (Medicare withholdings). An audit adjustment, with the client's agreement, was posted for these liabilities and they are properly reflected in the Academy's audited financial statements. This issue has been referred to the Internal Revenue Service.

We recommend that the Academy promptly pay taxes that are withheld to avoid any penalties and interest that the taxing authority may impose on the Academy.

Officials' Response:

Eagle Heights Academy has begun a practice of remitting employee withholding within the required time frame, as well filing the proper tax returns in a timely manner. EHA will institute a written policy requiring same.

FINDING NUMBER - 2008-005

Material Weakness

Finding number 2008-008 describes the Academy's failure to provide a written management representation letter at the conclusion of the audit. We believe this finding also represents a material weakness under auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Officials' Response:

In light of the circumstances surrounding the former Business Manager and his responsibility for providing records to the auditors, school officials and management were not comfortable signing a management representation letter.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Reporting

Finding Number	2008-006
CFDA Title and Number	Twenty-First Century Community Learning Centers CFDA # 84.287
Federal Award Number / Year	2008
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding, Material Weakness, and Questioned Cost

34 CFR 80.41 (a) requires, except as provided in paragraphs (a) (2) and (5) of this section, that grantees will use only the forms specified in paragraphs (a) through (e) of this section, and such supplementary or other forms as may from time to time be authorized by OMB, for: (i) Submitting financial reports to Federal agencies, or (ii) Requesting advances or reimbursements when letters of credit are not used. (2) Grantees need not apply the forms prescribed in this section in dealing with their subgrantees.

The Ohio Department of Education sub grants these funds down to the Academy. **Consolidated Application Assurances Item 6** provides that the SUBGRANTEE will make reports to the Ohio Department of Education ("ODE") and to the Department of Education ("DEPARTMENT") as may reasonably be necessary to enable ODE and the DEPARTMENT to perform their duties. The reports shall be completed and submitted in accordance with the standards and procedures designated by ODE and/or the DEPARTMENT and shall be supported by appropriate documentation.

Contrary to the standards and procedures designated by ODE, the Academy was unable to provide proper supporting documentation (Project Cash Request period BUDLED) for the 21st Century project cash requests or the final expenditure report. This has led to a cumulative difference between the Project Cash Request period BUDLED and the 21st Century project final expenditure report of \$24,388 in federal questioned costs.

**FINDING NUMBER - 2008-006
 (Continued)**

We recommend that the Academy follow the ODE standards and procedures for reporting. It is also recommended that the Academy adopt formal policies and procedures for cash management and reporting that include, but are not limited to, the following:

- Establishing responsibility and providing the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.
- Tracking system which reminds staff when reports are due.
- The general ledger or other reliable records are the basis for the reports.
- Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports prior to submission.
- The required accounting method is used (e.g., cash or accrual)

This will help to ensure proper reporting to ODE as well as add a measure of control over federal awards.

Officials' Response:

Eagle Heights Academy has established procedures whereby the school follows ODE standards for Project Cash Requests (PCRs) and procedures for reporting. Periodic monitoring is in place whereby monthly BUDLED expenditure reports are reviewed for each Federal Fund and PCRs are submitted to ODE based on those expenditures within the first fifteen days of the subsequent month, in addition to an advance request calculated to fund the subsequent months estimated expenditures in an amount to be used within 3 days of receipt (and not to exceed 10% of the allocation without explanation). BUDLEDS are kept on file as the supporting documentation for the PCR submittals. EHA will institute a policy reflecting same.

Allowable Costs/Cost Principles

Finding Number	2008-007
CFDA Title and Number	Child Nutrition Cluster CFDA # 10.553, #10.555, #10.556, #10.559
Federal Award Number / Year	2008
Federal Agency	Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding, Material Weakness, and Questioned Cost

2 CFR Part 225, Appendix B (8)(h)(1) states that, charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

We noted that the food service director and the assistant food service director were listed as hourly employees in the board minutes, however, no timesheets documenting hours worked were completed in any pay period for the fiscal year ended June 30, 2008. The Food Service Director was paid \$43,129 and the Assistant Food Service Director was paid \$32,275 totaling \$75,404 in federal questioned costs relating to the Child Nutrition Cluster.

**FINDING NUMBER - 2008-007
 (Continued)**

We recommend the Academy adopt policies and procedures that require all employees charging federal grants to document time and attendance by completing a daily time record. These time records should be signed by the employee and approved by the immediate supervisor at the end of each pay period and forwarded to the business office for further review and approval by the appropriate personnel prior to entry into the accounting system. This will help to ensure allowable charges to federal awards are made as well as add a measure of control over the Academy's payroll cycle.

Officials' Response:

We will endeavor to maintain adequate documentation to substantiate the hours worked by pay period for all employees of the school.

Other

Finding Number	2008-008
CFDA Title and Number	All Federal programs
Federal Award Number / Year	2008
Federal Agency	Department of Education and Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding and Material Weakness

OMB Circular A-133 Section 200 (b) states that non-Federal entities that expend \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in a year in Federal awards shall have a single audit conducted in accordance with **Section 500** except when they elect to have a program-specific audit conducted in accordance with paragraph **(c)** of this section.

OMB Circular A-133 Section 500 states that the audit shall be conducted in accordance with GAGAS. The audit shall cover the entire operations of the auditee; or, at the option of the auditee, such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered Federal awards during such fiscal year, provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and other organizational unit, which shall be considered to be a non-Federal entity. The financial statements and schedule of expenditures of Federal awards shall be for the same fiscal year.

Government Auditing Standards (Yellow Book) Section 4.01 (a) states that for financial audits, GAGAS incorporate the AICPA field work and reporting standards and the related statements on auditing standards (SAS) unless specifically excluded or modified by GAGAS.

AU Section 333.05 states that written representations from management should be obtained for all financial statements and periods covered by the auditor's report.

FINDING NUMBER - 2008-008
(Continued)

AU Section 333.13 states management's refusal to furnish written representations constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion and is ordinarily sufficient to cause an auditor to disclaim an opinion. In addition, **AICPA A-133 Guide 10.73** states management's refusal to furnish all written representations that the auditor considers necessary in the circumstances constitutes a limitation on the scope of the audit sufficient to require a qualified opinion or disclaimer of opinion on the auditee's compliance with major program requirements.

The management of Eagle Heights Academy failed to provide a written management representation letter at the conclusion of the audit for the fiscal year ended June 30, 2008. As a result, a disclaimer of opinion was issued.

We recommend that the Academy provide a written management representation letter at the conclusion of their audit to alleviate the issuance of a disclaimer of opinion.

Officials' Response:

In light of the circumstances surrounding the former Business Manager and his responsibility for providing records to the auditors, school officials and management were not comfortable signing a management representation letter.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2007-001	Cash and Payroll accounts were not reconciled on a monthly basis.	No	Reissued as Finding Number 2008-001
2007-002	Poor Internal Control Environment	No	Reissued as Finding Number 2008-002
2007-003 through 2007-031	Findings for Recovery in the 21 st Century Grant	Yes	
2007-032	Inaccurate fund cash balances on the Five Year Financial Forecast	No	Reissued as Finding Number 2008-003
2007-033	Proper records retention	Yes	
2007-034	Remittance of Federal and Medicare withholdings to the Internal Revenue Service	No	Reissued as Finding Number 2008-004
2007-035	Time and Effort Documentation for the Title I and 21 st Century Grants	Yes	
2007-036	Reporting errors on the Academy's Project Cash Request forms for the Title I and 21st Century Grants	No	Partially corrected - reissued as Finding Number 2008-006



Dave Yost • Auditor of State

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
FEBRUARY 10, 2011**