



Dave Yost • Auditor of State

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

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Dave Yost • 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, 2009.

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, expenditures and changes in fund balances of the Academy for the year ended June 30, 2009.

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.

Ohio Administrative Code Section 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

As discussed in Note 13, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2011, 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 Receipt and Expenditure 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 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 Receipt and Expenditure schedule of the Academy.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 6, 2011

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Foundation payments	\$ 4,888,009	\$ 815,651	\$ 5,703,660
Charges for services	-	-	-
Extracurricular Activities	-	4,969	4,969
Other	388,779	-	388,779
Total Cash Receipts	<u>5,276,788</u>	<u>820,620</u>	<u>6,097,408</u>
Cash Disbursements:			
Salaries and wages	3,456,680	1,152,227	4,608,907
Fringe benefits	875,264	291,755	1,167,019
Purchased services	1,031,345	343,782	1,375,127
Materials and supplies	271,073	90,358	361,431
Other	136,908	45,635	182,543
Total Cash Disbursements	<u>5,771,270</u>	<u>1,923,757</u>	<u>7,695,027</u>
Excess of Cash Receipts Over / (Under) Cash Disbursements	<u>(494,482)</u>	<u>(1,103,137)</u>	<u>(1,597,619)</u>
Other Financing Sources/(Uses):			
Federal and state grants	350,316	1,068,452	1,418,768
Investment Income	439	-	439
Interest and fiscal charges	(17,721)	-	(17,721)
Other	-	29,504	29,504
Total Other Financing Sources/(Uses)	<u>333,034</u>	<u>1,097,956</u>	<u>1,430,990</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	<u>(161,448)</u>	<u>(5,181)</u>	<u>(166,629)</u>
Fund Cash Balances, July 1, 2008, Restated - See Note 12	<u>(668,302)</u>	<u>735,942</u>	<u>67,640</u>
Fund Cash Balances, June 30, 2009	<u>\$ (829,750)</u>	<u>\$ 730,761</u>	<u>\$ (98,989)</u>
Reserve for Encumbrances, June 30, 2009	<u>\$ 72,585</u>	<u>\$ 180,151</u>	<u>\$ 252,736</u>

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

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Foundation payments	\$ -	\$ -	\$ -
Charges for services	14,336	-	14,336
Extracurricular Activities	-	421	421
Other	-	-	-
Total Operating Cash Receipts	<u>14,336</u>	<u>421</u>	<u>14,757</u>
Operating Cash Disbursements:			
Salaries and wages	135,097	-	135,097
Fringe benefits	14,782	-	14,782
Purchased services	-	-	-
Materials and supplies	288,671	20	288,691
Other	-	-	-
Total Operating Cash Disbursements	<u>438,550</u>	<u>20</u>	<u>438,570</u>
Excess of Operating Cash Receipts Over / (Under) Operating Cash Disbursements	<u>(424,214)</u>	<u>401</u>	<u>(423,813)</u>
Non-Operating Cash Receipts/(Disbursements):			
Federal and state grants	417,850	-	417,850
Investment Income	-	-	-
Interest and fiscal charges	-	-	-
Total Non-Operating Cash Receipts/(Disbursements)	<u>417,850</u>	<u>-</u>	<u>417,850</u>
Net Receipts Over/(Under) Disbursements	(6,364)	401	(5,963)
Fund Cash Balances, July 1, 2008, Restated - See Note 12	<u>197,569</u>	<u>-</u>	<u>197,569</u>
Fund Cash Balances, June 30, 2009	<u>\$ 191,205</u>	<u>\$ 401</u>	<u>\$ 191,606</u>
Reserve for Encumbrances, June 30, 2009	<u>\$ 1,863</u>	<u>\$ -</u>	<u>\$ 1,863</u>

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

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the 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 53 non-certified and 78 certified full-time teaching personnel who provide services to 760 students.

B. Accounting Basis

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Academy chose to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when entered, and disbursements are recognized when paid rather than when a commitment is made (i.e., when an encumbrance is approved).

C. Investments

Investment procedures are restricted by the provisions of the Revised Code. Purchased investments are valued at cost and neither are charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

The Academy had no investments at June 30, 2009.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund accounting

The Academy uses fund accounting to segregate cash that is restricted as to use.

The Academy classifies its funds into the following types:

General Fund

The General Fund is the general operating fund and is used to account for all financial resources except for those required by law or contract to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than permanent funds or major capital projects) that are legally restricted to disbursements for specified purposes. The Academy had the following significant Special Revenue Fund:

Title I Grant - The Title I Grant fund accounts for grant monies received by the Academy to implement the Title I program.

Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of provide goods and services to the general public on a continuing basis be financed or recovered primarily through user chargers; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Academy had the following significant Enterprise Fund:

Food Service Fund - The food service fund accounts for the grants and charges for services related to the food service operations of the Academy.

Fiduciary Funds

Trust and Agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, on a cost reimbursements basis. The Academy had no Private Purpose Trust funds. The Academy's Agency fund accounted for student activity fund raising occurring during the fiscal year.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 Academy 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 Academy 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 Academy Principal and Treasurer are 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.

F. 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 \$6,377.

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.

F. Property, Plant and Equipment

The Academy records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid vacation and sick leave are not reflected as liabilities under the accounting basis described in Note 1B.

H. Total Columns – Financial Statements

Total columns on the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

I. 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 2 - EQUITY IN POOLED DEPOSITS AND INVESTMENTS

Deposits

At June 30, 2009, the carrying amount of all Academy deposits was \$92,617 and the bank balance was \$114,468. All of the bank balance was covered by the Federal Deposit Insurance Corporation, which insures deposits up to \$250,000.

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 FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 3 - SHORT-TERM OBLIGATIONS

During fiscal year 2009, the Academy maintained a line of credit from National City Bank. The line of credit had an interest rate of 3.25%. Also during fiscal year 2009, the Academy received an interest-free loan in the amount of \$230,000. As of June 30, 2009, the Academy made principal and interest and penalty payments on the line of credit of \$51,917 and \$6,431 respectively and did not make a payment on the loan payable.

	Balance at 6/30/2008	Additions	Reductions	Balance at 06/30/2009
Line of Credit	\$ 150,000	\$ 101,103	\$ (51,917)	\$ 199,186
Interest-free Loan	-	230,000	-	230,000
Total short-term obligations	\$ 150,000	\$ 331,103	\$ (51,917)	\$ 429,186

NOTE 4 - DEFINED PENSION BENEFIT 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 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2008, 9.16 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 fiscal years ended June 30, 2009, 2008, and 2007, were \$123,897, \$95,374, and \$114,880 respectively; 43 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEFINED PENSION BENEFIT PLANS (Continued)

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, 2009, 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 2008, the portion used to fund pension obligations was also 13 percent.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEFINED PENSION BENEFIT PLANS (Continued)

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.

The Academy's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2006 were \$434,725, \$473,586, and \$475,486, respectively; 84.10 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal years 2008 and 2007.

NOTE 5 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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 2009, 4.16 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 2009, 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, 2009, 2008, and 2007 were \$77,977, \$65,179, and \$39,026 respectively; 42.88 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 5 - POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007, were \$10,222, \$6,872, and \$7,166 respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007.

B. State Teachers Retirement System of Ohio

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 2009, 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, 2009, 2008, and 2007 were \$33,440, \$36,430, and \$36,576 respectively; 84.10 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 6 - OPERATING LEASES

The Academy entered into a lease agreement with the City of Youngstown Parks and Recreation Commission during fiscal year 2009 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 2008-2009 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, 2009, April 11, 2009 and June 11, 2009. In fiscal year 2009, the Academy made one payment of \$19,500.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 7 - 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 made one payment during fiscal year 2009 and did not renew the lease. 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. During fiscal year 2009, the Academy entered into an additional lease agreement with Bank of America for another new copier and entered into a lease agreement with GE Capital for another new copier, which replaced an existing lease that was entered into during fiscal year 2006. 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", however, since the Academy is reporting on a cash basis for fiscal year 2009, these leases will not be included in the financial statement.

NOTE 8 - 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 2009, 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.

Director and officer coverage is provided by The Central Insurance Company with a \$1,000,000 aggregate limit and \$5,000 deductible.

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.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 9 - 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, 2009.

B. Litigation

The Academy is a defendant in several lawsuits, the outcome of which cannot be presently determined. It is the opinion of the Academy's management that any judgment against the Academy resulting from these lawsuits would not have a material adverse effect on the Academy's financial position.

C. Internal Revenue Service Tax Payments

The Academy is delinquent on their federal tax payments to the Internal Revenue Service (IRS). The total amount owed to the IRS without including interest and penalties at June 30, 2009 was \$1,003,608. The Academy is having ongoing discussions with the IRS on a settlement of interest and penalties that have accrued over several years as a result of not paying their federal taxes. The IRS has placed a lien on the Academy's building as a result of the delinquent payments.

NOTE 10 - COMPLIANCE

The Academy failed to properly prepare their financial statements in accordance with generally accepted accounting principles as required by Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-02-03 (B).

The spending plan on file with the Academy was submitted to the Ohio Department of Education on October 31, 2008 and included inaccurate fund cash balances on the report contrary to Ohio Revised Code Section 3314.03(A)(11)(d) and Ohio Revised Code Section 5705.391.

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 for the 3rd and 4th quarters of 2008 contrary to 26 USCS Sections 3102 and 3402.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 11 - JOINTLY GOVERNED COUNCIL OF GOVERNMENTS

Tri-Rivers Educational Computer Association (TRECA) is a jointly governed Council of Governments organization among 21 school districts. 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. 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, Director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

NOTE 12 - PRIOR PERIOD ADJUSTMENT

During fiscal year 2009, the Academy voided checks which were written in prior periods and recorded revenue from prior periods that was not posted.

2009 Prior Period Adjustment			
	06/30/08 Fund		07/01/08 Fund
<u>Fund Type</u>	<u>Cash Balance</u>	<u>Adjustments</u>	<u>Cash Balance</u>
General Fund	\$ (371,721)	\$ (296,581)	\$ (668,302)
Special Revenue	(103,060)	839,002	735,942
Capital Projects	(161,366)	161,366	0
Enterprise	203,744	(6,175)	197,569
Total:	\$ (432,403)	\$ 697,612	\$ 265,209

NOTE 13 - SUBSEQUENT EVENT

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 RECEIPT AND EXPENDITURE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009

FEDERAL GRANTOR <i>Pass Through Grantor</i> <u>Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program	03-PU, 04-PU	10.555		\$29,503		\$29,503
Cash Assistance:						
School Breakfast Program	05-PU	10.553	\$112,926	-	\$112,926	-
National School Lunch Program	03-PU, 04-PU	10.555	<u>290,789</u>		<u>290,789</u>	
Total Department of Agriculture - Nutrition Cluster			<u>403,715</u>	<u>29,503</u>	<u>403,715</u>	<u>29,503</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1	84.010	559,553	-	611,668	-
Special Education Cluster:						
Special Education Grants to States	6B-SF	84.027	245,310	-	174,156	-
Special Education Preschool Grants	PG-S1	84.173	<u>873</u>	-	<u>56</u>	-
Total - Special Education Cluster			246,183		174,212	
Safe and Drug Free Schools and Communities - State Grants	DR-S1	84.186	12,856	-	12,856	-
21st Century Community Learning Centers	T1-S1	84.287	115,883	-	130,041	-
State Grants for Innovative Programs	C2-S1	84.298	2,285	-	2,321	-
Education Technology State Grants	TJ-S1	84.318	1,003	-	7,366	-
Improving Teacher Quality State Grants	TR-S1	84.367	82,559	-	121,856	-
School Improvement Grants		84.377	<u>38,693</u>	-	<u>18,518</u>	-
Total Department of Education			<u>1,059,015</u>	<u>-</u>	<u>1,078,838</u>	<u>-</u>
Totals			<u>\$1,462,730</u>	<u>\$29,503</u>	<u>\$1,482,553</u>	<u>\$29,503</u>

The accompanying notes are an integral part of this schedule.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipt and Expenditure 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 entitlement value. The Academy allocated donated food commodities to the respective program 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.

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Dave Yost • 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, 2009 and have issued our report thereon dated May 6, 2011, in which we disclaimed an opinion upon the financial statements because we were unable to obtain a written representation letter from the Academy and wherein we noted that the Academy prepared its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001, 2009-002, and 2009-005 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

To the extent possible, we tested 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2009-003, 2009-004 and 2009-006.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated May 6, 2011.

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



Dave Yost
Auditor of State

May 6, 2011



Dave Yost • 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, 2009. 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 2009-007 through 2009-009 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding allowable costs/cost principles applying to its Child Nutrition Cluster grant (CFDA #10.553 and #10.555) and other requirements applying to its Child Nutrition Cluster grant (CFDA #10.553 and #10.555) and to its Title I Grants To Local Educational Agencies grant (CFDA #84.010). Compliance with these requirements is necessary, in our opinion, for the Academy to comply with the 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 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-007 through 2009-009 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 May 6, 2011.

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.



Dave Yost
Auditor of State

May 6, 2011

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any 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 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(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants To Local Educational Agencies (CFDA #84.010) Child Nutrition Cluster (CFDA#10.553 and 10.555)
(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 - 2009-001

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. This could result in material misstatements to the financial statements.

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/Treasurer 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 - 2009-002

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).

**FINDING NUMBER - 2009-002
(Continued)**

- Human resource policies and practices.
- 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 - 2009-003

Noncompliance 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, 2008 and included inaccurate fund cash balances on the report as noted below:

**FINDING NUMBER - 2009-003
 (Continued)**

Five Year Financial Forecast at June 30:

Financial Forecast Fiscal Year	Forecast Fund Cash Balance	Audited Fund Cash Balance	Variance
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)
2009	\$335,471	\$92,617	\$(242,854)

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 - 2009-004

Noncompliance Citation

26 USCS 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 for the 3rd and 4th quarters of 2008. The amount withheld from employees during fiscal year 2009 was \$478,093, of which \$348,152 was federal withholdings and \$129,941 was Medicare withholdings. The Academy made payments of \$218,265 during fiscal year 2009. The total amount owed to the IRS at June 30, 2009 is \$1,003,608. The Academy has properly disclosed this obligation in the notes to the financial statements. This issue will also be 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 - 2009-005

Material Weakness

Finding number 2009-008 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.

FINDING NUMBER 2009-006

Noncompliance Citation

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Academy prepares its financial statements in accordance with a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The Academy can be fined and various other legal administrative remedies may be taken against the Academy.

We recommend the Academy prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Allowable Costs/Cost Principles

Finding Number	2009-007
CFDA Title and Number	Child Nutrition Cluster (CFDA # 10.553 and #10.555)
Federal Award Number / Year	2009
Federal Agency	Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding, Material Weakness, and Questioned Costs

2 CFR Part 225, App. 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, 2009. The Food Service Director was paid \$44,342 and the Assistant Food Service Director was paid \$35,232 totaling \$79,574 in federal questioned costs relating to the Child Nutrition Cluster.

We also recommend the Academy adopt policies and procedures that require employees charging the federal programs within the Child Nutrition Cluster to document time and attendance by completing a daily time record. Said 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 the federal programs within the Child Nutrition Cluster 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	2009-008
CFDA Title and Number	Title I Grants To Local Educational Agencies (CFDA #84.010) Child Nutrition Cluster (CFDA#10.553 and #10.555)
Federal Award Number / Year	2009
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.

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, 2009. As a result, a disclaimer of opinion was issued. This situation also affects the non-major federal programs as well.

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.

**FINDING NUMBER - 2009-008
 (Continued)**

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.

Other

Finding Number	2009-009
CFDA Title and Number	Title I Grants To Local Educational Agencies (CFDA #84.010) Child Nutrition Cluster (CFDA#10.553 and #10.555)
Federal Award Number / Year	2009
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 320 (a) states that the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

The Academy failed to submit its data collection form and reporting package for the fiscal year ended June 30, 2008.

We recommend that the Academy submit its data collection form and reporting package within the time frame as required by OMB Circular A-133 Section 320.

Officials' Response:

We did not receive a response from Officials to this finding.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2008-001	Cash and Payroll accounts were not reconciled on a monthly basis.	No	Reissued as Finding Number 2009-001
2008-002	Poor Internal Control Environment	No	Reissued as Finding Number 2009-002
2008-003	Inaccurate fund cash balances on the Five Year Financial Forecast	No	Reissued as Finding Number 2009-003
2008-004	Remittance of Federal and Medicare withholdings to the Internal Revenue Service	No	Reissued as Finding Number 2009-004
2008-005	The Academy failed to provide a written management representation letter (GAAP and GAS)	No	Reissued as Finding Number 2009-005
2008-006	The Academy could not provide proper supporting documentation for the 21 st Century Grant project requests or for the final expenditure report	Yes	
2008-007	The Academy had no timesheets documenting the hours of the Food Service Director and the Assistant Food Service Director	No	Reissued as Finding Number 2009-007
2008-008	The Academy failed to provide a written management representation letter (Federal)	No	Reissued as Finding Number 2009-008

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Trustees:

Ohio Revised Code Section 117.53 states "the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Ohio Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Eagle Heights Academy (the "School") has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on August 18, 2007.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (6) A procedure for documenting any prohibited incident that is reported;
 - (7) A procedure for responding to and investigating any reported incident;

- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

May 6, 2011



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
JULY 12, 2011**