



**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

We have audited the Balance Sheet of the Eagle Heights Academy, Mahoning County, (the School), as of June 30, 2000, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and the Statement of Cash Flows as of and for the year ended June 30, 2000. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eagle Heights Academy as of June 30, 2000, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2001 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

July 31, 2001

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2000**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 539,762
Receivables	
Grants	212,910
Other	<u>64,789</u>
TOTAL CURRENT ASSETS	817,461

NONCURRENT ASSETS

Fixed assets, net of accumulated depreciation	<u>2,232,534</u>
TOTAL ASSETS	<u><u>\$ 3,049,995</u></u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 94,241
Accrued expenses	286,756
Intergovernmental payable	59,680
Notes payable, current portion	<u>421,845</u>
TOTAL CURRENT LIABILITIES	862,522

LONG-TERM LIABILITIES

Notes payable, net of current portion	<u>701,317</u>
TOTAL LIABILITIES	1,563,839

FUND EQUITY

Retained earnings	<u>1,486,156</u>
TOTAL FUND EQUITY	<u>1,486,156</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 3,049,995</u></u>

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

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2000**

OPERATING REVENUES

Foundation payments	\$ 2,798,024
Disadvantaged pupil impact aid	767,655
Other	<u>136,543</u>
TOTAL OPERATING REVENUES	\$3,702,222

OPERATING EXPENSES

Salaries and wages	2,199,820
Fringe benefits	605,544
Purchased services	1,111,898
Materials and supplies	290,064
Depreciation	132,957
Other	<u>22,465</u>
TOTAL OPERATING EXPENSES	<u>4,362,748</u>

OPERATING LOSS (660,526)

NON-OPERATING REVENUES (EXPENSES)

School Lunch Program	266,771
Contributions	200,659
Federal grant revenue	494,117
Other grant revenue	50,000
Interest earnings	34,123
Interest expense	<u>(60,308)</u>
NET NON-OPERATING REVENUES	<u>985,362</u>

NET INCOME 324,836

RETAINED EARNINGS AT BEGINNING OF YEAR 1,161,320

RETAINED EARNINGS AT END OF YEAR \$ 1,486,156

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

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**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State of Ohio	\$ 3,517,836
Cash payments to suppliers for goods and services	(1,385,998)
Cash payments to employees for services and benefits	(2,579,154)
Other operating revenue	<u>86,543</u>
Net Cash Used for Operating Activities	(360,773)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from Contributions	200,659
Cash received from State of Ohio - Federal Grant Monies	<u>1,003,115</u>
Net Cash Provided by Noncapital Financing Activities	1,203,774

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash payments for capital acquisitions	(896,792)
Cash received from notes payable	671,000
Cash payments on notes payable	(198,511)
Interest payments	<u>(38,308)</u>
Net Cash Used for Capital and Related Financing Activities	(462,611)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>34,123</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 414,513

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 125,249

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 539,762

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2000
(Continued)**

**RECONCILIATION OF OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (660,526)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Depreciation	132,957
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Changes in assets and liabilities

Increase in accounts payable	72,241
(Increase) in other receivable	(48,049)
Increase in accrued expenses	200,729
(Decrease) in intergovernmental payable	(8,125)
(Decrease) in notes payable	<u>(50,000)</u>

Total adjustments	<u>299,753</u>
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Net Cash Used for Operating Activities	<u>\$ (360,773)</u>
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The notes to the financial statements are an integral part of this statement.

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**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Eagle Heights Academy (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The School contracts with White Hat Management, LLC, for a variety of services including management consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, and assistance in grant applications.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 1998. The School operates under a self-appointing six-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's one instructional/support facility staffed by 48 non-certified and 49 certified full-time teaching personnel who provide services to 694 students.

Certain members of the Board also are members of the Board of Warriors, Inc. See Note 13.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow Ohio Rev. Code Section 5705.

The School's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School Principal and Business Manager are responsible for ensuring that purchases are made within these limits.

D. Cash and Cash Equivalents

All cash received by the School is maintained at a central bank.

For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure.

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

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

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned and measurable.

Additionally, the school has applied and received approval for federal grant monies. Amounts recognized under federal programs for the 2000 fiscal year totaled \$494,117. All of this money was passed through the State of Ohio.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accrued Expenses

Payroll and withholdings (\$234,526), management fees (\$28,272) and retirement surcharge (\$23,958) which are due but unpaid as of June 30, 2000 are reported as Accrued Expenses in the accompanying Balance Sheet.

H. Intergovernmental Payable

The school has recognized on its balance sheet an amount classified as "Intergovernmental Payable". This figure represents the amount that is estimated to be refunded to the Ohio Department of Education based on the difference in the actual student full-time equivalent (FTE) enrollment as determined at the end of the year, compared to the October 1999 enrollment that the school's monthly funding was based upon. A payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year end.

I. 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.

J. Federal Tax Exempt Status

On August 23, 1999, the School was granted status as an exempt organization under Internal Revenue Code Section 501 (c) (3) and is exempt from federal income taxes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

3. DEPOSITS

Deposits: The carrying value of the School's deposits totaled (\$119,238), and the bank balance totaled \$24,736, all of which was covered by federal depository insurance.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name.

Investments of the School as of June 30, 2000 were as follows:

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

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

3. DEPOSITS (Continued)

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$539,762	\$0
Investments:		
Sweep Account	<u>(659,000)</u>	<u>659,000</u>
GASB Statement No. 3	<u>(\$119,238)</u>	<u>\$659,000</u>

4. RECEIVABLES

Receivables of the School at June 30, 2000 consisted of federal program grants of \$212,910, federal lunch program reimbursements of \$56,457 and \$8,332 of rent reimbursement. All federal grant receivables are considered collectible in full, due to the stable condition of the programs.

5. NOTES PAYABLE

At June 30, 2000, the School had the following notes outstanding:

	Interest Rate	Principal Outstanding	Original Note
National City Bank Commercial Note:	8.235%	\$ 409,473	\$ 496,000
National City Bank Note:	8.235%	\$ 550,000	\$ 550,000
Highway Tabernacle Note:	9.00%	\$ 163,689	\$ 175,000

These Notes were issued for the purpose of making improvements to the existing school building and are uncollateralized. Payments of principal and interest are due monthly. The amounts required to amortize the existing note obligations are as follows:

<u>National City Bank Note</u>		<u>National City Bank Note</u>		<u>Highway Tabernacle Note</u>	
<u>Year Ending</u>		<u>Year Ending</u>		<u>Year Ending</u>	
<u>June 30</u>	<u>Amount</u>	<u>June 30</u>	<u>Amount</u>	<u>June 30</u>	<u>Amount</u>
2001	\$565,868	2001	\$572,000	2001	\$ 26,602
				2002	26,602
				2003	26,602
				2004	26,602
				2005	26,602
				2006-2009	106,424
Total	<u>\$565,868</u>	Total	<u>\$572,000</u>	Total	<u>\$239,434</u>

The School incurred debt which matures later than the School's fiscal year. This is in violation of Ohio Revised Code Section 3314.08 (J).

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

6. FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 2000, follows:

Leasehold Improvements	\$ 1,446,679
Furniture and Fixtures	214,582
Textbooks	272,447
Equipment	<u>564,789</u>
Subtotal	<u>\$ 2,498,497</u>
 Less: Accumulated Depreciation	 (265,963)
 Net Fixed Assets	 <u>\$ 2,232,534</u>

7. PURCHASED SERVICES

Purchased Services include the following:

Occupancy Costs	\$	429,958	Staff Training	\$	25,117
Food Services		193,401	Management Fee		213,722
Insurance		29,584	Audit/Accounting Services		9,340
Advertising & Promotion		7,671	Security Guard Services		59,459
Other		39,433	Speech pathology/Audiology services		69,448
			Grant Services		<u>34,765</u>
			Total		<u>\$1,111,898</u>

8. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2000, the School contracted with Westfield Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$350,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. General Star National Insurance Companies provides umbrella liability coverage of \$10,000,000 per occurrence.

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

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

9. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits - The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 95% of the monthly premium for family and single employees, respectively. The employee is responsible for the remaining percentage. For fiscal year 2000, the School's and the employees' premiums were \$444.07 and \$21.45 for family coverage and \$143.24 and \$6.92 for single coverage per employee per month, respectively.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

9. OTHER EMPLOYEE BENEFITS (Continued)

The School has also contracted with private carriers to provide dental and vision insurance. The employee is responsible for all of the monthly premium.

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

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 2000, 5.5 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by Ohio statute. The adequacy of the contribution rates is determined annually. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2000 and 1999 were \$43,483 and \$59,727, respectively; 94 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. \$6,355 representing the unpaid contribution for fiscal year 2000 is recorded as a liability within accrued expenses.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2000 and 1999 were \$85,925 and \$71,902, respectively; 90 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. \$20,455 representing the unpaid contribution for fiscal year 2000 is recorded as a liability within accrued expenses.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

11. POST EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$114,567 during the 2000 fiscal year.

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

For fiscal year 2000, employer contributions to fund health care benefits were 8.5 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2000, the minimum pay was established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$91,159 during the 2000 fiscal year.

12. AGREEMENT WITH WHITE HAT MANAGEMENT, LLC

On July 27, 1998, the School entered into a three-year Management Consulting, Technology Support, and License Agreement (Consulting Agreement) with White Hat Management, LLC (WHM), which is an education consulting and management company.

The Consulting Agreement allows the School to utilize WHM's proprietary systems, manuals, forms, names and to receive advice on funding and reimbursement; consulting and liaison services with the Ohio Department of Education and other governmental agencies; EMIS monitoring and consulting; grant writing assistance; technology procurement, implementation assistance, and other services and consultation as requested. WHM is compensated at a rate of 5% of qualified gross revenues plus an incentive fee equal to 25% of excess revenues over expenditures as defined in the agreement. For the year ended June 30, 2000, \$213,722 was expensed by the School under the Consulting Agreement and \$28,272 was payable to WHM at June 30, 2000. No amounts were payable under the incentive fee arrangement. Eagle Heights Academy terminated its contract with White Hat Management effective September 30, 2000.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

13. LEASE AGREEMENT

The School entered into a ninety-nine year lease agreement. The Lease Agreement terms call for the School to pay rent of 6% of gross revenue, to pay utilities in the amount of \$106,045 annually, to pay maintenance in the amount of \$50,845 annually and security in the amount of \$58,046 annually. The amounts for utilities, maintenance and security will be reviewed annually.

The present value of the minimum lease payments is indeterminate: therefore, the lease is being treated as an operating lease. All base rental is considered contingent rent and amounted to \$248,800 during the 2000 fiscal year.

14. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School. During the fiscal year ended June 30, 2000, the School earned \$2,724,972 in school foundation revenue.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 27, 1997, decision, however, it found seven "...major areas warrant[ing] further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case.

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

15. PENDING LITIGATION

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

EAGLE HEIGHTS ACADEMY
MAHONING COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2000
(Cash Basis)

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Breakfast Program	05-PU	10.553	\$50,161	\$50,161
National School Lunch Program	03-PU,04-PU	10.555	169,017	169,017
Total U.S. Department of Agriculture - Nutrition Cluster			<u>219,178</u>	<u>219,178</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Grants to Local Educational Agencies (ESEA Title I)	C1-S1	84.010	578,691	195,020
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SX	84.027	14,610	14,610
Drug-Free Schools Grant	DR-S1	84.186	9,013	1,963
Eisenhower Professional Development State Grant	MS-S1	84.281	19,448	18,748
Innovative Educational Program Strategies	C2-S1	84.298	17,545	18,999
Class Size Reduction Subsidy	CR-S1	84.340	47,037	20,391
Total Department of Education			<u>686,344</u>	<u>269,731</u>
Totals			<u>\$905,522</u>	<u>\$488,909</u>

The accompanying notes are an integral part of this schedule.

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2000**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2000, the School had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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



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

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

To the Board of Trustees:

We have audited the financial statements of Eagle Heights Academy, Mahoning County, (the School), as of and for the year ended June 30, 2000, and have issued our report thereon dated July 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Eagle Heights Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-11150-001 through 2000-11150-003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eagle Heights Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Eagle Heights Academy in a separate letter dated July 31, 2001.

Eagle Heights Academy
Mahoning County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

July 31, 2001



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

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

To the Board of Trustees:

Compliance

We have audited the compliance of Eagle Heights Academy, Mahoning County, (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

In our opinion, Eagle Heights Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the Eagle Heights Academy in a separate letter dated July 31, 2001.

This report is intended for the information and use of the Board of Trustees, management, and Federal Awarding Agencies and Passthrough Entities and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

July 31, 2001

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2000**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other reportable control weakness conditions 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 weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	NO
(d)(1)(vii)	Major Programs (list):	-Nutrition Cluster - CFDA #10.55X -Title I CFDA #84.010
(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	2000-11150-001
-----------------------	-----------------------

Finding for Recovery

Eagle Heights Academy Board of Trustees authorized a policy in January 2000 for educational reimbursement at a rate of 75% for A's and 50% for B's. Keith Gorby, a teacher with Eagle Heights Academy, took graduate level courses which qualified him for a reimbursement under this policy. Mr. Gorby received a reimbursement at the rate of 75% of his instructional cost but he only received B's for those courses. His total reimbursement was as follows which was more than what was allowable under this policy:

<u>Received</u>	<u>Allowed</u>	<u>Over Reimbursed</u>
\$540 x 75% = \$405.00	\$540 x 50% = \$270.00	\$135.00

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby issued against Keith Gorby in favor of Eagle Heights Academy in the amount of one hundred thirty five dollars (\$135.00).

On June 5, 2001, the Board of Trustees approved in the minutes the over reimbursement made to Keith Gorby, absolving him of any additional responsibility in this matter.

Finding Number	2000-11150-002
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Finding for Recovery

The salaries paid to Ron King, Business Manager of Eagle Heights Academy, for FY99 and FY00 were incorrect as follows:

<u>Fiscal Year</u>	<u>Authorized</u>	<u>Received</u>	<u>Over/(Under)Paid</u>
7/1/98 thru 6/30/99	\$35,026.92	\$36,168.17	\$1,141.25
7/1/99 thru 6/30/00	\$50,000.00	\$49,938.66	(\$ 61.34)
		Total	<u>\$1,079.91</u>

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is issued against Ron King, Business Manager, in favor of Eagle Heights Academy in the amount of one thousand seventy nine dollars and ninety one cents (\$1,079.91).

On June 5, 2001, the Board of Trustees approved in the minutes the over reimbursement made to Ron King, absolving him of any additional responsibility in this matter.

Finding Number	2000-11150-003
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Noncompliance Citation

Ohio Revised Code Section 3314.08 (J), states, in part, that "a community school may borrow money to pay any necessary and actual expenses of the school. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed."

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

- a. A note from National City Bank in the amount of \$550,000 issued on September 17, 1998 and maturing on June 17, 2001;
- b. A note from National City Bank in the amount of \$496,000 issued on July 9, 1999 and maturing on March 9, 2001;
- c. A note from the Highway Tabernacle Church in the amount of \$175,000 issued on July 1, 1999 and maturing on July 1, 2009.

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

**EAGLE HEIGHTS ACADEMY
MAHONING COUNTY
JUNE 30, 2000**

SCHEDULE OF PRIOR AUDIT FINDINGS			
<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
1999-11150-001	The School issued notes that mature later than the end of the fiscal year in which such money was borrowed in violation of Ohio Revised Code Section 3314.08 (J).	No	Citation will be repeated.
1999-11150-002	Receipts and disbursements of the Capital Improvement Fund and the Computer Fund were not recorded in the revenue and disbursement ledgers of the School.	Yes	Corrected
1999-11150-003	The School's system for documenting nonpayroll cash disbursements did not gather and maintain proper support for all such disbursements.	No	Partially Corrected, improvements have been made.



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EAGLE HEIGHTS ACADEMY

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 20, 2001**