



**Auditor of State  
Betty Montgomery**



**EAGLE ACADEMY  
LUCAS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report .....	1
Balance Sheet - As of June 30, 2003 .....	3
Statement of Revenues, Expenses, and Changes in Retained Earnings - For the Year Ended June 30, 2003 .....	4
Statement of Cash Flows - For the Year Ended June 30, 2003 .....	5
Notes to the Financial Statements.....	7
Schedule of Federal Awards Expenditures.....	19
Notes to the Schedule of Federal Awards Expenditures.....	20
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	21
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i> .....	23
Schedule of Findings .....	27
Schedule of Prior Audit Findings .....	30

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Eagle Academy  
Lucas County  
1501 Monroe Street  
Toledo, Ohio 43624

To the Governing Board:

We have audited the Balance Sheet of Eagle Academy, Lucas County, (the Academy) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Academy'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.

The Academy has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to Federal, State and Local income taxes. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

Because of the departure referred to in the preceding paragraph, net income and retained earnings are overstated and liabilities for accrued income taxes is understated by amounts which, while material, we were unable to determine.

In our opinion, because of the effects of the matters discussed in the previous two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Academy, as of June 30, 2003, or the results of operations and its cash flows for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



**Betty Montgomery**  
Auditor of State

May 13, 2004

**EAGLE ACADEMY  
LUCAS COUNTY**

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

---

**Assets**

Current Assets

Cash	\$ 119,529
Accounts Receivable	1,089
Intergovernmental Receivable	<u>105,000</u>

Total Current Assets 225,618

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>22,669</u>
--	---------------

Total Assets \$ 248,287

**Liabilities and Fund Equity**

Current Liabilities

Accounts Payable	\$ 11,073
Contracts Payable	94,700
Intergovernmental Payable	31,758
Notes Payable	<u>5,032</u>

Total Current Liabilities 142,563

Fund Equity

Retained Earnings	<u>105,724</u>
-------------------	----------------

Total Liabilities and Fund Equity \$ 248,287

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**EAGLE ACADEMY  
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2003

---

**Operating Revenues**

Foundation Payments	\$ 1,077,733
Disadvantaged Pupil Impact Aid	284,491
Food Services	3,660
Other Operating Revenues	<u>368</u>
Total Operating Revenues	<u>1,366,252</u>

**Operating Expenses**

Salaries	662,783
Fringe Benefits	222,172
Purchased Services	688,239
Materials and Supplies	92,602
Depreciation	4,030
Other Operating Expenses	<u>14,452</u>
Total Operating Expenses	<u>1,684,278</u>

Operating Loss	<u>(318,026)</u>
----------------	------------------

**Non-Operating Revenues and Expenses**

Grants - Federal	442,529
Grants - State	14,947
Interest Charges	<u>(3,736)</u>

Total Non-Operating Revenues and (Expenses)	<u>453,740</u>
---	----------------

Net Income	135,714
------------	---------

Accumulated Deficit at Beginning of Year	<u>(29,990)</u>
--	-----------------

Retained Earnings at End of Year	<u><u>\$ 105,724</u></u>
----------------------------------	--------------------------

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**EAGLE ACADEMY  
LUCAS COUNTY**

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

---

**Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 1,377,987
Cash Received from Food Services	3,660
Cash Received from Other Operating Revenue	368
Cash Payments to Suppliers for Goods and Services	(851,209)
Cash Payments to Employees for Services	(612,004)
Cash Payments to Employee Benefits	<u>(215,454)</u>
Net Cash Used for Operating Activities	<u>(296,652)</u>
Cash Flows from Noncapital Financing Activities	
Grants - Federal	341,855
Grants - State	<u>14,947</u>
Net Cash Provided by Noncapital Financing Activities	<u>356,802</u>
Cash Flows from Capital and Related Financing Activities	
Interest Payments and Fiscal Charges	<u>(3,736)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(3,736)</u>
Net Increase in Cash and Cash Equivalents	56,414
Cash and Cash Equivalents at the Beginning of the Year	<u>63,115</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 119,529</u></u>

(Continued)

**EAGLE ACADEMY  
LUCAS COUNTY**

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

---

**Reconciliation of Operating Loss to  
Net Cash Used for Operating Activities**

Operating Loss	\$ (318,026)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	4,030
Changes in Liabilities:	
Decrease in Intergovernmental Receivable	5,005
(Increase) in Accounts Receivable	(1,089)
(Decrease) in Accounts Payable	(81,327)
Increase in Notes Payable	5,032
Increase in Intergovernmental Payable	31,758
Increase in Contracts Payable	<u>57,965</u>
Total Adjustments	<u>21,374</u>
Net Cash Used for Operating Activities	<u><u>\$ (296,652)</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Eagle Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide an atmosphere where students will develop a thirst for learning, creative expression and awareness of new horizons. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, personal integrity and responsibility, and a willingness to exercise leadership in their educational and social interactions. Staff, students and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, formerly the University of Toledo Charter School Council (the Sponsor) for a period of five years commencing August 21, 2001. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board whom also is the Governing Board for three other Leona Group schools. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility staffed by four non-certified personnel and eleven certificated teaching personnel who provide services to 227 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee. (See Note 15.)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board 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 Academy's accounting policies are described below.

**A. Basis of Presentation**

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or 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 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. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis. The Academy follows a budget that is adopted and revised as needed.

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

**D. Cash**

All monies received by the Academy are accounted for by the Academy's management company, The Leona Group. All cash received by the Fiscal Officer is maintained in a bank account in the Academy's name or temporarily used to purchase short-term investments. For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

**E. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The Academy does not possess any infrastructure.

Software costing more than \$10,000 per application, land and buildings costing more than \$1,000, furniture and equipment costing more than \$1,000 per item or any item costing under \$1,000 alone but purchased as a group for over \$2,500 will be capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

**F. Intergovernmental Revenues**

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

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

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

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

The Academy also participates in the Federal Charter Academy Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

**G. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**3. DEPOSITS AND INVESTMENTS**

At June 30, 2003, the carrying amount of the Academy's deposits was \$119,529 and the bank balance was \$148,946. At June 30, 2003, \$42,429 of deposits were not insured or collateralized.

**4. RECEIVABLES**

Receivables at June 30, 2003, consisted of accounts and intergovernmental receivables. Accounts receivable are considered collectible in full. Intergovernmental receivables are considered collectible in full due to the current year guarantee of federal funds.

**5. FIXED ASSETS**

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

Furniture and Equipment	\$ 28,210
Less: Accumulated Depreciation	<u>(5,541)</u>
Net Fixed Assets	<u><u>\$ 22,669</u></u>

**6. RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended June 30, 2003, the Academy contracted with EMC Insurance

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

Companies for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and no deductible. Excess Liability coverage of \$8,000,000 single occurrence limit and \$8,000,000 aggregate limit and no deductible is also held.

Professional liability is protected by insurance coverage through EMC Insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and no deductible. Vehicle coverage is protected by EMC Insurance with a \$1,000,000 combined single limit of liability.

**B. Workers' Compensation**

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

**7. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The Academy 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 retirement and disability benefits to members and death and survivor benefits to 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the Academy was required to contribute 14 percent; 13 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 Academy's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003 and 2002, was \$68,245 and \$17,637, respectively; 89 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal year 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$3,019 made by the Academy and \$2,674 made by plan members.

**B. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003 and 2002, were \$7,503 and \$1,046, respectively; 100 percent has been contributed for both years.

**8. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has the statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was \$5,482.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to 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 their premium.

**EAGLE ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Academy, the amount used to fund health care benefits, including the surcharge, was \$5,354 for fiscal year 2003.

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

**9. STATE SCHOOL FUNDING DECISION**

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

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

**10. 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 of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2003.

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

**B. Ohio Community School Program**

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 law. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues.

**C. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review resulted in the state funding being adjusted. The Academy foundation payments were reduced by \$10,758 which has been recorded as an intergovernmental payable on the financial statements.

**11. PURCHASED SERVICE EXPENSES**

For the period ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and Maintenance	\$ 32,496
Audit Fees	7,278
Legal	6,337
Insurance	10,168
Advertising	7,282
Ohio Council of Community Schools	53,188
The Leona Group, LLC (See Note 15)	203,247
Cleaning Services	700
Utility	68,567
Other Professional Services	114,148
Building Lease Agreements	180,976
Other Leases and Rentals	3,852
	<hr/>
Total Purchased Services	<u>\$ 688,239</u>

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

**12. OPERATING LEASES**

The Academy has entered into a lease for the period August 1, 2001 through August 31, 2006 with Luttenberger and Company to lease 24,000 square feet of space for a school facility. Payments made totaled \$180,976 for the fiscal year. The building which houses the Academy is owned by Luttenberger and Company. The Academy has the option to renew the lease at an inflation-adjusted rate at the end of the contract period.

The Academy entered into 2 leases with Albin Business Centers, one for the period July 3, 2001 through July 2, 2004 for a fax machine and one for the period September 20, 2001 through September 19, 2005 for a copier. Payments made totaled \$888 and \$2,964 respectively for fiscal year 2003.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2003.

Fiscal Year Ending June 30,	Facility Lease	Copier Lease	Fax Machine Lease
2004	\$ 182,434	\$ 2,964	\$ 888
2005	187,904	2,964	
2006	193,540	494	
2007	32,414		
Total minimum lease payments	<u>\$ 596,292</u>	<u>\$ 6,422</u>	<u>\$ 888</u>

**13. DEBT**

Debt outstanding at June 30, 2003 was as follows:

J.L. Hammett Co,	<u>Principal</u>	<u>Interest Rate</u>
	<u>\$ 5,082</u>	12.00%

J.L. Hammett Co provided financing to the Academy for furniture and equipment the Academy purchased during fiscal year 2002. The financing is for 12 months at an interest rate of 12 percent. This note is collateralized by the furniture purchased from J.L. Hammett Co.

**EAGLE ACADEMY  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

Amortization of the above debt, including interest, is scheduled as follows:

<u>Year ending June 30:</u>	<u>J.L. Hammett</u>
2004	<u>\$ 5,082</u>

**14. RELATED PARTIES**

Three Board members of the Academy are employees of The Leona Group, LLC (TLG). The Academy contracts with TLG for the operation of its school, including Program Evaluation; Human Resources; Staffing, Supervision and Performance review; Fiscal Services and Accounting; and Compliance. As stated in Note 11 the Academy paid TLG \$203,247 during fiscal year 2003.

The Academy's Governing Board consists of the same members as the Governing Board for Lake Erie Academy, Paul Laurence Dunbar Academy, and Toledo accelerated Academy.

**15. MANAGEMENT AGREEMENT**

The Academy entered into a five-year contract, effective August 21, 2001 through August 20, 2006, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12 percent of the per pupil expenditures and a Year-End fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The amount paid to TLG for fiscal year 2003 totaled \$203,247 and no amount was due at June 30, 2003. Terms of the contracts require TLG to provide the following:

- Implementation and administration of the Educational Program.
- Management of all personnel functions, including professional development.
- Operation of the school building and the installation of technology integral to school design.
- All aspects of the business administration of the Academy.
- The provision of food service for the Academy.
- Any other function necessary or expedient for the administration of the Academy.

**EAGLE ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

The Academy may terminate this agreement with cause prior to the end of the term in the event that The Leona Group should fail to remedy a material breach within a period reasonable under the circumstances, but not less than sixty (60) days after notice from the Academy.

The Leona Group may terminate this agreement with cause prior to the end of the specified term in the event the Academy fails to remedy a material breach within a period reasonable under the circumstances, but not less than sixty (60) days after notice from The Leona Group.

In the event this agreement is terminated by either party prior to the end of the specified term, the termination will not become effective until the end of the school year following the notice of termination and The Leona Group shall provide the Academy reasonable assistance for up to 90 days to assist in the transition to a regular school program.

Upon expiration of this agreement at the completion of the contract term and where there is no renewal, The Leona Group shall have the right to reclaim any usable property or equipment as were purchased by or for the Academy by The Leona Group at its cost or expense. Fixtures and building alterations shall become the property of the Academy.

**16. TAX EXEMPT STATUS**

The Academy has not filed for its tax exempt status under § 501(c)(3) of the Internal Revenue Code. The Academy does intend to file for such tax exempt status. The Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

**17. SUBSEQUENT EVENTS**

On September 23, 2003, the Academy has provided a loan to Lake Erie Academy in the amount of \$100,000. This loan was repaid by Lake Erie Academy on February 5, 2004.

**EAGLE ACADEMY  
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Ohio Department of Education</i>				
<u>Nutrition Cluster:</u>				
National School Breakfast Program	143552-05PU-2003	10.553	\$ 12,371	\$ 12,371
National School Lunch Program	143552-LLP4-2003	10.555	54,462	54,462
Total U.S. Department of Agriculture - Nutrition Cluster			<u>66,833</u>	<u>66,833</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
Special Education Grants to States	143552-6BCM-2003-P 143552-6BSD-2003-P	84.027	64,020	19,531
Eisenhower Professional Development State Grants (Title II)	143552-MSS1-2002	84.281	148	148
Charter Schools	143552-CHS1-2003	84.282	45,000	171,746
Grants to Local Educational Agencies (ESEA Title I)	143552-C1S1-2003	84.010	166,854	192,497
Innovative Educational Program Strategies (Title VI)	143552-C2S1-2003	84.298	1,381	1,534
Drug-Free Schools Grant (Title IV)	143552-DRS1-2003	84.186	2,682	2,719
Technology Literacy Challenge Fund (Title III Part A)	143552-TJS1-2003	84.318	4,455	4,780
Improving Teacher Quality (Title II Part A)	143552-TRS1-2003	84.367	11,374	11,420
Class Size Reduction (Title VIR)	143552-CRS1-2002	84.340	<u>109</u>	<u>109</u>
Total Department of Education			<u>296,023</u>	<u>404,484</u>
<b>Total Federal Awards</b>			<u>\$ 362,856</u>	<u>\$ 471,317</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

**EAGLE ACADEMY  
LUCAS COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - MATCHING REQUIREMENTS**

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



**Auditor of State  
Betty Montgomery**

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

Eagle Academy  
Lucas County  
1501 Monroe Street  
Toledo, Ohio 43624

To the Governing Board:

We have audited the financial statements of Eagle Academy, Lucas County, (the Academy) for the year ended June 30, 2003, and have issued our report thereon dated May 13, 2004. Our report indicated the financial statements were not fairly presented in accordance with accounting principles generally accepted in the United States of America. The Academy did not obtain an exemption from Federal Income taxes and no provision was established for taxes or accrued income taxes at June 30, 2003. 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 of America.

**Compliance**

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated May 13, 2004.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding 2003-002 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Academy in a separate letter dated May 13, 2004.

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



**Betty Montgomery**  
Auditor of State

May 13, 2004



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS  
AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH *OMB CIRCULAR A-133***

Eagle Academy  
Lucas County  
1501 Monroe Street  
Toledo, Ohio 43624

To the Governing Board:

**Compliance**

We have audited the compliance of Eagle Academy, Lucas County, (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 are applicable to each of its major federal programs for the year ended June 30, 2003. The Academy'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 Academy's management. Our responsibility is to express an opinion on the Academy'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 the 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 Academy's compliance with those requirements.

In our opinion, the 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, 2003.

### **Internal Control over Compliance**

The management of the 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 Academy'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*.

In planning and performing our audit, we considered the Academy'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 Academy in a separate letter dated May 13, 2004.

Eagle Academy  
Lucas County  
Independent Accountants' Report on Compliance with Requirements  
Applicable to Major Federal Programs and Internal Control Over  
Compliance in Accordance with *OMB Circular A-133*  
Page 3

This report is intended for the information and use of management, governing board, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

May 13, 2004

**This page intentionally left blank.**

**EAGLE ACADEMY  
LUCAS COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Adverse
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Charter Schools Grant – CFDA # 84.282 Title I – CFDA # 84.010
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2003-001**

**Reportable Condition - Fixed Assets**

The following conditions over fixed asset controls and procedures exist:

- The Academy has not developed a fixed asset accounting system which maintains fixed asset listings with tag identification numbers.
- The Academy has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.
- The Academy has not developed and implemented procedures to perform periodic inventory of assets.
- The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for the Academy.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that the Academy's assets will be misstated, we recommend:

- The Governing Board develops and implements procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the Academy's capitalization criteria. Further, addition and disposal forms should be completed by the Academy and approved by management when assets are acquired or disposed of. This information should then be entered on a fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation. A copy of the invoice for the fixed asset should be maintained in a fixed asset additions file.

**FINDING NUMBER 2003-001**  
**(Continued)**

- The Academy develops and implements procedures for performing periodic (annual) physical inventory. The physical inventory can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location, and independently verified by a member of management. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added. Any significant deficiency should be investigated and documented accordingly.

**FINDING NUMBER 2003-002**

**Material Weakness - Tax Exempt Status**

The Academy has not applied for tax exempt status with the Internal Revenue Service (IRS). Without approval of the tax exempt status, the net income consequently is subject to taxation by the IRS. Further the Academy has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy file for tax exempt status with the IRS and/or establish provisions for federal, state, and local and accrued taxes.

**EAGLE ACADEMY  
LUCAS COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10148-001	Tax Exempt Status	No	Not corrected. Reissued as Finding Number 2003-002.
2002-10148-002	Material Weakness of Fixed Asset Controls	No	Not corrected. Reissued as Finding Number 2003-001.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**EAGLE ACADEMY**

**LUCAS 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  
JUNE 8, 2004**