LORAIN ACADEMY FOR GIFTED STUDENTS
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

LORAIN ACADEMY FOR GIFTED STUDENTS
LORAIN COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Lorain Academy for Gifted Students
Lorain County
307 West 7th Street
Lorain, Ohio 44052

We have audited the accompanying financial statements of the Lorain Academy for Gifted Students, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lorain Academy for Gifted Students, Lorain County, Ohio, as of June 30, 2005 and the respective changes in financial position 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 December 23, 2005, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

December 23, 2005

Management's discussion and analysis of the Lorain Academy for Gifted Students' (LAGS) financial performance provides an overall review of LAGS' financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at LAGS' financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of LAGS' financial performance.

Financial Highlights

Key financial highlights for 2005 include the following:

- LAGS began operations during the 2004-2005 school year with lower than desired enrollment. Constellation Community Schools (CCS) supplemented the finances of LAGS for the year in anticipation of improving enrollment for the 2005-2006 school year. Although the enrollment for 2005-2006 increased it remains lower than what we would like to ensure an improved financial position for the school to build upon. LAGS will be closely managed to ensure that it remains financially viable for future years.

- In total, net assets increased $3,212 from 2004. This increase is due to the lower than anticipated first year enrollment partially offset by CCS support ($90,103). Enrollment for the 2005-2006 school year increased, but remains lower than desired.

- Total assets increased $25,142 from 2004. This increase is due to an increase in net capital assets of $50,181 partially offset by a decrease of $25,039 in current assets. The cash balance decrease of $24,817 is due to the low enrollment and the decrease in other current assets of $222 is due to receivables collections. The increase in capital assets is due to building improvements and purchases of classroom computers and equipment.

- Liabilities increased $21,930 from 2004. Accounts payable increased by $3,167, deferred revenues increased $2,850 and leases payable increased $15,913.

- Operating revenues were $381,442. The majority of the revenues ($253,208) are from the state foundation and DPIA program with Constellation Community Schools providing an additional $90,103. Additional funding comes from materials fees, service income and miscellaneous sources.

- Operating expenses were $658,233. The largest portions of expenses are due to staffing ($246,020) and services purchased by LAGS ($231,935) such as building rent, utilities and student support services provided by non-employee personnel (e.g. speech, school nurse, etc.).

- Non-operating revenues were $280,003 entirely from Federal and State Grants.

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets looks at how well LAGS has performed financially from inception through June 30, 2005. This statement includes all of the assets, liabilities and equity balances using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of LAGS' Statement of Net Assets for fiscal years ended June 30, 2005 and 2004.

	2005	2004
Assets		
Cash	$ 10,557	$ 35,374
Other Current Assets	1,078	1,300
Capital Assets	50,181	-0-
Total Assets	61,816	36,674
Liabilities		
Current Liabilities	6,017	-0-
Long Term Liabilities	15,913	-0-
Total Liabilities	21,930	-0-
Net Assets		
Net Assets	39,886	36,674
Total Liabilities and Net Assets	$ 61,816	$ 36,674

Net Assets increased $3,212 due primarily to low enrollment which was partially offset by support from Constellation Community Schools. For assets, cash decreased $24,817; due from other governments increased $1,078 and net capital assets increased $50,181 from 2004. For liabilities, accounts payable increased $3,167, deferred revenues increased $2,850 and lease payable increased $15,913 from 2004.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2005.

The following schedule provides a summary of LAGS' Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2005. Since this is the first year LAGS has operated and prepared financial statements, revenue and comparisons to fiscal year 2004 are not available. In future years, when prior year information is available, a comparative analysis of LAGS' data will be presented.

	2005
Revenues	
Foundation and DPIA Revenues	$ 253,208
Other Operating Revenues	128,234
Federal and State Grants	280,003
Total Revenues	661,445
Expenses	
Salaries	188,468
Fringe Benefits	57,552
Purchased Services	231,935
Materials and Supplies	118,615
Capital Outlay	40,469
Depreciation	14,981
Other Operating Expenses	6,213
Total Expenses	658,233
Net Income	3,212
Net Assets at Beginning of Year	36,674
Net Assets at End of Year	$ 39,886

Capital Assets

As of June 30, 2005 LAGS had $50,181 invested in leasehold improvements, computers, office equipment, furniture, classroom equipment and materials, net of depreciation. This is a $50,181 increase over June 30, 2004.

The following schedule provides a summary of LAGS' Capital Assets as of June 30, 2005 and 2004.

	2005	2004
Capital Assets (net of depreciation)		
Leasehold Improvements	$ 16,051	$ -0-
Computers and Office Equipment	30,739	-0-
Furniture, Equipment & Materials	3,391	-0-
Net Capital Assets	$ 50,181	$ -0-

For more information on capital assets see the Notes to the Financial Statements.

Current Financial Issues

LAGS opened in the fall of 2004. In its initial year of operations it had 38 students, three teaching staff members and expenses of $658,233. For fiscal year 2006, LAGS is budgeted for a total of 66 students, four teaching staff members and expenses of $615,085. Although the enrollment for the 2005-2006 increased, it remains lower than what we like to see to ensure long-term financial health. We are closely managing the assets of LAGS to ensure its' financial viability. As LAGS matures to full enrollment we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting LAGS' Financial Management

This financial report is designed to provide our constituents with a general overview of LAGS' finances and to show LAGS' accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; by calling 216.635.1881; by faxing 216.635.1883 or by e-mail to babb.thomas@constellationschools.com.

Lorain Academy for Gifted Students
Lorain County
Statement of Net Assets
For the Fiscal Year Ended June 30, 2005

Assets:	
Current Assets:	
Cash	$10,557
Due from Other Governments	1,078
Total Current Assets	11,635
Non-Current Assets:	
Capital Assets (Net of Accumulated Depreciation)	50,181
Total Assets	$61,816
Liabilities:	
Current Liabilities:	
Accounts Payable	$3,167
Deferred Revenue	2,850
Total Current Liabilities	6,017
Long Term Liabilities:	
Leases Payable	15,913
Total Liabilities	21,930
Net Assets:	
Investment in capital assets, net of related debt	50,181
Unrestricted	(10,295)
Total Net Assets	$39,886

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

Lorain Academy for Gifted Students
Lorain County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Operating Revenues:	
Foundation and DPIA Revenues	$253,208
Other Operating Revenues	128,234
Total Operating Revenues	381,442
Operating Expenses:	
Salaries	188,468
Fringe Benefits	57,552
Purchased Services	231,935
Materials and Supplies	118,615
Capital Outlay	40,469
Depreciation	14,981
Other Operating Expenses	6,213
Total Operating Expenses	658,233
Operating Loss	(276,791)
Non-Operating Revenues:	
Federal and State Grants	280,003
Total Non-Operating Revenues	280,003
Net Income	3,212
Net Assets at Beginning of the Year	36,674
Net Assets at End of Year	$39,886

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

Lorain Academy for Gifted Students
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$253,208
Cash Payments to Suppliers for Goods and Services	(435,482)
Cash Payments to Employees for Services	(188,468)
Other Operating Revenues	131,084
Net Cash Used for Operating Activities	(239,658)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants Received	280,003
Net Cash Provided by Noncapital Financing Activities	280,003
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(65,162)
Net Cash Used for Capital and Related Financing Activities	(65,162)
Net Decrease in Cash	(24,817)
Cash at Beginning of Year	35,374
Cash at End of Year	$10,557

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

Lorain Academy for Gifted Students
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005
(Continued)

Reconciliation of Operating Loss to Net Cash Provided for Operating Activities:	
Operating Loss	($276,791)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	14,981
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	1,300
(Increase) in Due from Other Governments	(1,078)
Increase in Accounts Payable	3,167
Increase in Deferred Revenue	2,850
Increase in Leases Payable	15,913
Total Adjustments	37,133
Net Cash Used for Operating Activities	($239,658)

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

I. Description of the School and Reporting Entity

Lorain Academy for Gifted Students (LAGS) is a nonprofit corporation established on December 5, 2003 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On February 10, 2005, LAGS applied for tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code which is currently under review. Management is not aware of any course of action or series of events that have occurred that might adversely affect LAGS' tax-exempt status. LAGS, which is part of Ohio's education program, is independent of any school district. LAGS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of LAGS.

On January 20, 2004 LAGS was approved for operation under a contract between the Governing Authority of LAGS and Lucas County Educational Service Center (LCESC) as their sponsor. Under the terms of the contract LCESC will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XII for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on September 17, 1999 under the name Constellation Community Schools (management company).

LAGS operates under a five-member Board of Trustees. The 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 qualification of teachers. LAGS controls one instructional facility staffed by three certificated full time teaching personnel who provide services to 38 students.

LAGS entered into an agreement with CCS to provide management services for the fiscal year. See footnote XII for additional information regarding the management company. The board members of LAGS are also board members of CCS, Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School and Greater Cleveland Academy for Gifted Students.

II. Summary of Significant Accounting Policies

The financial statements of LAGS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. LAGS 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 LAGS' accounting policies are described below.

1. 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.

2. 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 Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. LAGS prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which LAGS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which LAGS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to LAGS on a reimbursement basis. Expenses are recognized at the time they are incurred.

II. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

3. Cash

All monies received by LAGS are deposited in demand deposit accounts.

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 LAGS prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. LAGS will from time to time adopt budget revisions as necessary.

II. Summary of Significant Accounting Policies (Continued)

5. Due from Other Governments

Moneys due LAGS for the year ended June 30, 2005 are recorded as Due from Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of $500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Depreciation of leasehold improvements, computers, furniture, equipment and materials is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of $500 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	**Years**
Computers and Office Equipment	3
Leasehold Improvements	5
Furniture, Equipment & Materials	10

7. Intergovernmental Revenues

LAGS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA"). 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.

II. Summary of Significant Accounting Policies (Continued)

7. Intergovernmental Revenues (Continued)

LAGS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, LAGS was awarded $150,000 in fiscal year 2004 and $150,000 in fiscal year 2005 to offset start-up costs of the School. During fiscal year 2005, $125,000 from the 2004 award and $150,000 from the 2005 award was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2005 school year totaled $533,211.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar, therefore, LAGS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum amount of one hundred twenty days. LAGS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

9. Use of Estimates

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

10. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for LAGS consists of material and fees received in the current year which pertain to the next school year.

III. Deposits

At fiscal year end June 30, 2005, the carrying amount of LAGS' deposits totaled $10,557 and its bank balance was $36,568. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, LAGS will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of LAGS.

IV. Capital Assets

A summary of capital assets at June 30, 2005 follows:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
Capital Assets Being Depreciated:				
Leasehold Improvements	$0	$19,064	$0	$19,064
Computers/Office Equipment	0	42,445	0	42,445
Furniture, Equipment & Materials	0	3,653	0	3,653
Total Capital Assets Being Depreciated:	0	65,162	0	65,162
Less Accumulated Depreciation:				
Leasehold Improvements	0	(3,013)	0	(3,013)
Computers & Office Equip	0	(11,706)	0	(11,706)
Furniture, Equipment & Materials	0	(262)	0	(262)
Total Accumulated Depreciation:	0	(14,981)	0	(14,981)
Total Capital Assets, Net of Accumulated Depreciation	$0	$50,181	$0	$50,181

V. Purchased Services

Purchased Services include the following:

Instruction	$10,415
Pupil Support Services	34,836
Staff Development & Support	16,167
Administrative	28,686
Occupancy Costs	141,831
Total	$231,935

VI. Operating Leases

LAGS leases its facilities at 309 Seventh Street, Lorain from St. Mary Church under a five year lease agreement effective July 1, 2004 and expiring June 30, 2009. Monthly payments under the terms of the lease are $6,000 for the first year. The lease provides 10% increases in the monthly rent at the beginning of each July.

LAGS recognizes these non-cancelable lease costs on the straight line basis. A comparison of scheduled lease costs and payments due is as follows:

Lease Year	Straight Line Expense	Rental Payments Due
2006	$ 87,913	$ 79,200
2007	87,913	87,120
2008	87,913	95,832
2009	87,913	105,413
Total	$351,652	$367,565

LAGS has recorded $15,913 as leases payable on the Statement of Net Assets. This amount represents the difference between rental payments made and the amounts due, based on the straight line basis over the life of the lease.

VII. Risk Management

1. Property and Liability Insurance

LAGS 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 fiscal year 2005, LAGS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at $1,000,000 single occurrence limit and $2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at $300,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

LAGS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2005 there have been no claims filed by LAGS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Vision Benefits

LAGS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to LAGS for insurance benefits was $16,975.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

The LAGS contributes to the School Employees Retirement System of Ohio ("SERS"), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Ohio 43215-3476 or by calling (614) 222-5853.

VIII. Defined Benefit Pension Plans (Continued)

1. School Employees Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and LAGS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of LAGS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. LAGS' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005 was $1,407. For fiscal year 2005, LAGS has a prepaid contributions balance totaling $390 at year end which is reflected in Due from Other Governments in the accompanying financial statements. All other required contributions were paid.

2. State Teachers Retirement System

LAGS 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. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614)227-4090.

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

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. 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 balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and LAGS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

LAGS' required contribution for pension obligations to the DB Plan for the fiscal year ended June 30, 2005 was $22,262. For fiscal year 2005, LAGS has a prepaid contributions balance totaling $688 at year end which is reflected in Due from Other Governments in the accompanying financial statements. All other required contributions were paid.

IX. Post-Employment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For LAGS, this amount equaled $1,712 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer’s SERS salaries. For LAGS, the amount to fund health care benefits, including surcharge, equaled $1,274 for fiscal 2005.

IX. Post-Employment Benefits (Continued)

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

X. 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…".

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

XI. Contingencies

1. Grants

LAGS 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 LAGS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LAGS at June 30, 2005.

XI. Contingencies (Continued)

2. 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 law. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004 the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on PCS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment 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 conclusions of this review could result in state funding being adjusted. As of the date of this report there are no adjustments to the state funding received during fiscal year 2005.

XII. Sponsorship and Management Agreement

LAGS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. Sponsorship fees are calculated as 1% of state funds received by ECS, from the State of Ohio. The total amount due from LAGS for fiscal year 2005 was $2,318 all of which was paid prior to June 30, 2005.

LAGS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2005. The agreement was for a period of one year, effective July 1, 2004. Management fees are calculated as 11% of the 2004/2005 Foundation payment received by LAGS, as reported in the Monthly Community School Foundation Report. CCS waived management fees for the 2005 fiscal year due to the start-up nature of the school and to assist LAGS with their cash flow.

XIII. Related Parties

The members of the LAGS Board of Trustees are also members of the Constellation Community Schools (CCS), Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School and Greater Cleveland Academy for Gifted Students governing boards. LAGS contracts with CCS for legal, financial and business management services.

XIV. Net Assets

As of the fiscal year ended June 30, 2004, LAGS had Net Assets in the amount of $36,674 which was comprised of the following:

Federal and State Grant Funds	$75,000
Less total start up expenses incurred for the periods ending June 30, 2004	(38,326)
Net Assets as of June 30, 2004	$ 36,674

Auditor of State
Betty Montgomery

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

Board of Trustees
Lorain Academy for Gifted Students
Lorain County
307 West 7th Street
Lorain, Ohio 44052

We have audited the financial statements of the Lorain Academy for Gifted Students, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 23, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audit may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated December 23, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

December 23, 2005

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

LORAIN ACADEMY FOR GIFTED STUDENTS

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 9, 2006