Lake Erie Academy
Lucas County

Financial Report

June 30, 2006

plante moran

Mary Taylor, CPA
Auditor of State

Board of Directors
Lake Erie Academy
2740 West Central Ave
Toledo, Ohio 43606

We have reviewed the *Independent Auditor's Report* of the Lake Erie Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lake Erie Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 5, 2007

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Lake Erie Academy
Lucas County

Contents

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Independent Auditor's Report

To the Board of Directors
Lake Erie Academy

We have audited the accompanying basic financial statements of Lake Erie Academy as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2006 and the 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 September 22, 2006 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, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Lake Erie Academy

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. We did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 22, 2006

plante moran

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Lake Erie Academy

We have audited the basic financial statements of Lake Erie Academy as of and for the year ended June 30, 2006 and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with the 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lake Erie Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Erie Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. We have noted no material instances of noncompliance.

We noted certain other matters we reported to the management of Lake Erie Academy in a separate letter dated September 22, 2006.

To the Board of Directors
Lake Erie Academy

This report is intended for the information and use of management, the board of directors, the Sponsor, 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.

Plante & Moran, PLLC

September 22, 2006

The management's discussion and analysis of Lake Erie Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government,* issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets decreased $43,106, which represents a 12 percent decrease from 2005. This was due primarily to a decrease in revenue without a corresponding decrease in operating expenses.

- Total assets decreased $159,755, which represents an 18 percent decrease from 2005. This was due primarily to a decrease in overall cash levels and depreciation of capital assets.

- Liabilities decreased $116,649, which represents a 22 percent decrease from 2005. This decrease was due to a significant decrease in accounts payable offset by an increase in contracts payable at year end.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic 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 answers the question, "How did we do financially during 2006?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal years 2006 and 2005:

TABLE 1	June 30	
	2006	2005
Assets		
Current assets	$ 410,649	$ 527,298
Capital assets - Net	320,696	363,802
Total assets	731,345	891,100
Liabilities - Current liabilities	411,771	528,420
Net Assets		
Invested in capital assets	320,696	363,802
Unrestricted	(1,122)	(1,122)
Total net assets	**$ 319,574**	**$ 362,680**

Cash decreased by $136,166 from 2005. Capital assets, net of depreciation, decreased by $43,106, due primarily to current year depreciation exceeding the level of current year additions.

Table 2 shows the changes in net assets for fiscal years 2006 and 2005, as well as a listing of revenues and expenses.

TABLE 2	Year Ended June 30	
	2006	2005
Operating Revenues		
Foundation payments	$ 1,835,903	$ 1,716,209
Disadvantaged Pupil Impact Aid	293,093	303,547
Charges for services	-	14,834
Other	6,101	19,882
Nonoperating Revenues		
Federal grants	456,033	662,923
State grants	13,621	20,620
Total revenues	2,604,751	2,738,015
Operating Expenses		
Salaries	863,829	914,143
Fringe benefits	255,172	300,996
Purchased services	1,229,949	1,074,986
Property taxes	67,890	65,666
Materials and supplies	31,861	187,482
Interest	-	75
Depreciation (unallocated)	103,558	82,299
Other expenses	4,731	7,645
Nonoperating Expenses - Federal and state taxes	90,867	84,891
Total expenses	2,647,857	2,718,183
Decrease in Net Assets	**$ (43,106)**	**$ 19,832**

Net assets decreased from the prior year. This was due primarily to a decrease in revenue without a corresponding decrease in operating expenses. There was a decrease in revenues of $133,264 and a decrease in expenses of $70,326 from 2005. Of the decrease in revenues, the foundation payments increased by $119,694 but this was offset by a decrease in the Disadvantaged Pupil Impact Aid of $10,454 and the expiration of the charter school grant in the current year. Community schools receive no support from tax revenues.

The expense for salaries decreased by $50,314 and the expense for fringe benefits decreased by $45,824 from 2005. This was due primarily to a decrease in staff during fiscal year 2006. Purchased services increased by $154,963 from 2005 due to an increase in rent expense and management fees. Materials and supplies expense decreased by $155,621 from 2005. Depreciation expense increased by $21,259.

Capital Assets

At the end of fiscal year 2006, the Academy had $320,696 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represents a decrease of $43,106 from 2005. Table 3 shows the capital assets (net of depreciation) for fiscal years 2006 and 2005:

TABLE 3	2006	2005
Leasehold improvements	$ 212,791	$ 224,851
Library books	21,688	26,686
Furniture, fixtures, and equipment	86,217	112,265
Total capital assets	**$ 320,696**	**$ 363,802**

For more information on capital assets, see Note 5 to the basic financial statements.

Current Financial Issues

Lake Erie Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2005-2006 school year, there were 305 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2006 amounted to $2,128,996.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of Lake Erie Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

Lake Erie Academy
Lucas County

Statement of Net Assets
June 30, 2006

Assets	
Current assets:	
Cash (Note 3)	$ 304,070
Intergovernmental receivable (Note 4)	76,389
Prepaid expenses	30,190
Total current assets	410,649
Noncurrent assets - Depreciable capital assets - Net (Note 5)	320,696
Total assets	731,345
Liabilities - Current liabilities:	
Accounts payable	22,600
Contracts payable (Note 13)	389,171
Total liabilities	411,771
Net Assets	
Invested in capital assets - Net of related debt	320,696
Unrestricted	(1,122)
Total net assets	**$ 319,574**

The Notes to Financial Statements are an
Integral Part of this Statement.

Lake Erie Academy
Lucas County

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2006

Operating Revenues	
Foundation payments	$ 1,835,903
Disadvantaged Pupil Impact Aid	293,093
Other revenues	6,101
Total operating revenues	2,135,097
Operating Expenses	
Salaries	863,829
Fringe benefits	255,172
Purchased services (Note 10)	1,229,949
Property taxes	67,890
Materials and supplies	31,861
Depreciation (Note 5)	103,558
Other	4,731
Total operating expenses	2,556,990
Operating Loss	(421,893)
Nonoperating Revenues (Expense)	
Federal grants	456,033
State grants	13,621
Federal and state taxes	(90,867)
Total nonoperating revenues	378,787
Change in Net Assets	(43,106)
Net Assets - Beginning of year	362,680
Net Assets - End of year	**$ 319,574**

The Notes to Financial Statements are an
Integral Part of this Statement.

Lake Erie Academy
Lucas County

Statement of Cash Flows
Year Ended June 30, 2006

Cash Flows from Operating Activities	
Received from foundation payments	$ 1,835,903
Received from Disadvantaged Pupil Impact Aid	293,093
Received from other operating revenues	6,327
Payments to suppliers for goods and services	(1,459,637)
Payments to employees for services	(864,629)
Payments for employee benefits	(255,172)
Net cash used in operating activities	(444,115)
Cash Flows from Noncapital Financing Activities	
Federal grants received	445,647
State grants received	13,621
Federal and state taxes	(90,867)
Net cash provided by noncapital financing activities	368,401
Cash Flows from Capital and Related Financing Activities -	
Payments for capital acquisitions	(60,452)
Net Decrease in Cash	(136,166)
Cash - Beginning of year	440,236
Cash - End of year	**$ 304,070**

Statement of Cash Flows (Continued)
Year Ended June 30, 2006

Reconciliation of operating loss to net cash from operating activities:	
Operating loss	$ (421,893)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	103,558
Changes in assets and liabilities:	
Decrease in intergovernmental receivable	226
Increase in prepaid items	(9,357)
Decrease in accounts payable	(176,045)
Increase in contracts payable	59,396
Total adjustments	(22,222)
Net cash used in operating activities	**$ (444,115)**

Note 1 - Description of the School and Reporting Entity

Lake Erie Academy, Lucas County (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through eighth. The Academy's mission is to provide an educational community that promotes educational achievement, involvement of parents, and positive social interactions. The Academy is committed to developing excellence on the part of students, teachers, and administrative staff. 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.

On July 1, 2002, the Academy was approved for operation under a contract with the Ohio Council of Community Schools (the "Sponsor") for a period of five years through June 30, 2007. 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 total Sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2006 was approximately $63,000.

The Academy operates under the direction of a five-member board of directors, which is also the governing board for five other The Leona Group, LLC schools (see Note 12). The board of directors 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 board of directors controls the Academy's instructional/support facility staffed by 14 certificated full-time teaching personnel who provide services to 305 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 the Academy. 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 (see Note 13).

Note 2 - Summary of Significant Accounting Policies

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

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.

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

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. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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.

Expenses are recognized at the time they are incurred.

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 contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

Intergovernmental Receivables - Receivables at June 30, 2006 consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $1,000 for furniture and equipment, land, and leasehold improvements, or any one item costing under $1,000 alone but purchased in a group for over $2,500. Software costing more then $10,000 per application will also be capitalized. Improvements 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.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining term of the operating lease. Depreciation is computed using the straight-line method over the following useful lives:

Leasehold improvements	5 years
Library books	6 years
Furniture , fixtures, and equipment	3-7 years

Net Assets - Net assets represent the difference between assets and liabilities. Investments in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt related to capital assets.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as nonoperating.

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 those estimates.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Tax Status - The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 2005 and has filed for an extension for fiscal year 2006. Amounts owed to the IRS and State of Ohio at June 30, 2006 are reported on the statement of net assets as taxes payable, if significant.

Note 3 - Deposits

The Academy has designated two banks for the deposit of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is subject to custodial credit risk.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of $340,939 had $231,164 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Receivables

A summary of the principal items of intergovernmental receivables is as follows:

Title I	$ 49,888
Title IV	542
Federal Child Nutrition	1,508
Special Education	23,866
Other	585
Total intergovernmental receivables	$ 76,389

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006 is as follows:

	Balance June 30, 2005	Additions	Balance June 30, 2006
Business-type Activity			
Capital assets being depreciated:			
Leasehold improvements	$ 300,991	$ 52,419	$ 353,410
Library books	30,000	-	30,000
Furniture, fixtures, and equipment	148,587	8,033	156,620
Total capital assets being depreciated	479,578	60,452	540,030
Less accumulated depreciation:			
Leasehold improvements	(76,140)	(64,479)	(140,619)
Library books	(3,314)	(4,998)	(8,312)
Furniture, fixtures, and equipment	(36,322)	(34,081)	(70,403)
Total accumulated depreciation	(115,776)	(103,558)	(219,334)
Total capital assets being depreciated - Net	$ 363,802	$ (43,106)	$ 320,696

Note 6 - Risk Management

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. During fiscal year 2006, the Academy contracted with EMC Insurance Corporation for general liability, property insurance, and educational errors and omissions insurance. Coverages are as follows:

Educational errors and omissions:	
Per occurrence	$ 8,000,000
Total per year	8,000,000
General liability:	
Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	1,000,000

Workers' Compensation - The Academy pays the State Workers' 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.

Note 7 - Defined Benefit Pension Plans

School Employees' Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees' Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853, or by visiting the SERS Ohio Website at www.ohsers.org.

Note 7 - Defined Benefit Pension Plans (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salaries and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' retirement board. The Academy's contributions to SERS for the years ended June 30, 2006, 2005, and 2004 were $16,095, $29,673, and $22,482, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for each of the fiscal years ended June 30, 2006, 2005, and 2004.

State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Plan Options - New members have a choice of three retirement plan options. In addition to the defined benefit (DB) Plan, new members are offered a defined contribution (DC) plan and a combined plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The combined plan offers features of the DC plan and the DB plan. In the combined plan, member contributions are allocated by the member and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. Contributions into the DC plan and the combined plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and combined plan members will transfer to the defined benefit plan during their fifth year of membership unless they permanently select the DC or combined plan.

Note 7 - Defined Benefit Pension Plans (Continued)

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60, (ii) 25 years of service credit and attained age 55, or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the formula benefit, the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio Service credit is calculated at 2.5 percent. An additional 0.1 percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the money-purchase benefit calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the combined plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Note 7 - Defined Benefit Pension Plans (Continued)

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3 percent of the original base amount for defined benefit plan participants.

The defined benefit and combined plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A defined benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the defined benefit plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or combined plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2006 were 10 percent of covered payroll for members and 14 percent for employers; 13 percent was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were $89,345, $76,803, and $76,956, respectively, equal to the required contributions for each year, of which 53 percent has been contributed for the fiscal year ended June 30, 2006 and 100 percent has been contributed for the fiscal years ended June 30, 2005 and 2004.

Note 7 - Defined Benefit Pension Plans (Continued)

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Website at www.strsoh.org.

Note 8 - Postemployment Benefits

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with 10 or more years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2006, the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2005 (latest year available), the minimum pay has been established at $27,400. 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. For the Academy, the amount to fund health care benefits, including the surcharge, was $1,096 for fiscal year 2006.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2005 (latest year available) were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (latest year available), the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of benefit recipients who received health care benefits was 58,123 for the fiscal year ended June 30, 2005 (latest year available).

Note 8 - Postemployment Benefits (Continued)

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the "Board") has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2006 and 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005 (latest year available).

For the Academy, this amount equaled $6,873 during the 2006 fiscal year. For the fiscal year ended June 30, 2005 (latest year available), net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients for the fiscal year ended June 30, 2005 (latest year available).

Note 9 - Contingencies

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 Academy. 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, 2006.

Note 9 - Contingencies (Continued)

State Funding - The Ohio Department of Education reviews enrollment data and full-time equivalency (FTE) calculations made by schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2006, the results of this review are not concluded. However, in the opinion of management, any changes to enrollment data will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

Note 10 - Purchased Service Expense

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	$ 13,738
Legal	1,761
Insurance	15,736
Advertising	10,257
Dues and fees	3,771
Ohio Council of Community Schools	63,097
The Leona Group, LLC (Note 13)	342,729
Cleaning services	17,532
Utility	102,896
Other professional services	225,940
Rent (Note 11)	432,492
Total purchased services	$ 1,229,949

Note 11 - Operating Leases

The Academy has entered into a lease for the period from July 1, 2003 through July 15, 2009 with Lake Erie Villa, LLC for the use of the main building, gymnasium, and grounds as a school facility. Lake Erie Villa, LLC is a related party, as disclosed in Note 12. Payments made totaled $422,500 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities and applicable property taxes.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2006:

Fiscal Years Ending June 30		Amount
2007		$ 422,500
2008		422,500
2009		422,500
	Total minimum lease payments	$ 1,267,500

Note 12 - Related Parties

The Academy's governing board consists of the same members as the governing board for Eagle Academy, Toledo Accelerated Academy, George A. Phillips Academy, Paul Laurence Dunbar Academy, and Wildwood Environmental Academy.

The Academy rents its building from Lake Erie Villa, LLC, an affiliate of The Leona Group, LLC's owner. The Academy paid Lake Erie Villa, LLC $422,500 during fiscal year 2006.

Note 13 - Management Agreement

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007 with options for annual renewal, 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, The Leona Group, LLC receives a capitation fee of the difference between total audited revenues less total expenditures, which is adjusted further for capital asset activity. The Academy incurred management fees totaling $342,729 for the year ended June 30, 2006. At June 30, 2006, contracts payable include $273,076 for the payment of management fees and approximately $116,000 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require The Leona Group, LLC 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

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

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

Note 13 - Management Agreement (Continued)

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, LLC shall provide the Academy reasonable assistance for up to 90 days to assist in the transition to a regular school program.

For the year ended June 30, 2006, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	$ 863,829
Fringe benefits	255,170
Professional and technical services	42,490
Other direct costs	23,911
Total expenses	$ 1,185,400

Mary Taylor, CPA
Auditor of State

LAKE ERIE 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
FEBRUARY 15, 2007

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