Lake Erie Academy
Lucas County

Financial Report

June 30, 2013

Dave Yost • Auditor of State

Board of Directors
Lake Erie Academy
2740 W. Central Avenue
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, 2012 through June 30, 2013. 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.

Dave Yost
Auditor of State

February 18, 2014

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Independent Auditor's Report

To the Board of Directors
Lake Erie Academy

Report on the Financial Statements

We have audited the accompanying basic financial statements of Lake Erie Academy (the "Academy") as of and for the year ended June 30, 2013 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Lake Erie Academy

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Lake Erie Academy as of June 30, 2013 and the changes in its financial position and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Academy adopted the provisions of GASB Statements No. 63 and No. 65 as of July 1, 2012. Our opinion is not modified with respect to this matter.

The accompanying basic financial statements have been prepared assuming that the Lake Erie Academy will continue as a going concern. As discussed in Note 14 to the basic financial statements, Lake Erie Academy has suffered recurring losses and various circumstances that have resulted in a significant net position deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. Additionally, as discussed in Note 1, the Academy's current agreement with its sponsor expires at June 30, 2014. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors
Lake Erie Academy

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of Lake Erie Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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* in considering Lake Erie Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 13, 2013

The management's discussion and analysis of Lake Erie Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2013. 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.

Financial Highlights

- In total, net position decreased $35,563 from 2012 to 2013. This was due mainly to decreased student count.
- Total assets decreased $476,352, which represents a 54.1 percent decrease from 2012 to 2013. This was due primarily to a decrease in cash and intergovernmental receivables.
- Liabilities decreased $440,789, which represents a 37.7 percent decrease from 2012 to 2013. This decrease was due to the payment of amounts previously owed to the Leona Group for management fees and the continued reduction of delinquent property taxes payable.

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 position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows.

Statement of Net Position

The statement of net position answers the question, "How did we do financially during 2013?" 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 revenue and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net position for fiscal years 2013 and 2012:

Table 1	June 30 2013	June 30 2012
Assets		
Current assets	$ 301,124	$ 740,928
Capital assets - Net	102,447	138,995
Total assets	403,571	879,923
Liabilities		
Current liabilities	531,627	848,806
Noncurrent liabilities	195,717	319,327
Total liabilities	727,344	1,168,133
Net Position		
Net investment in capital assets	102,447	138,995
Unrestricted	(426,220)	(427,205)
Total net position	**$ (323,773)**	**$ (288,210)**

Total assets decreased $476,352. This was due primarily to a decrease in cash of $377,382 and a decrease in intergovernmental receivables of $43,397 from 2012 to 2013.

Table 2 shows the changes in net position for fiscal years 2013 and 2012, as well as a listing of revenue and expenses.

Table 2	Year Ended June 30	
	2013	2012
Operating Revenue		
Foundation payments	$ 1,770,968	$ 2,256,255
Poverty-based assistance	221,406	371,314
Federal grants	550	87,959
Other	22,024	24,135
Nonoperating Revenue		
Federal grants	650,491	494,918
State grants	71,451	136,909
Total revenue	2,736,890	3,371,490
Operating Expenses		
Salaries	987,196	1,163,926
Fringe benefits	338,462	376,651
Purchased services	1,230,244	1,520,112
Property taxes	36,765	112,231
Materials and supplies	66,014	75,590
Depreciation (unallocated)	80,073	72,448
Other expenses	33,699	13,183
Nonoperating Expenses - Interest	-	3,071
Total expenses	2,772,453	3,337,212
(Decrease) Increase in Net Position	**$ (35,563)**	**$ 34,278**

Net position decreased $35,563 from the prior year. The notes to the financial statements provide information about management's plans to increase the net position. There was a decrease in revenue of $634,600 and a decrease in expenses of $564,759 from 2012 to 2013. Of the decrease in revenue, the foundation payments decreased by $485,287. Community schools receive no support from tax revenue. The expense for salaries decreased by $176,730 and the expense for fringe benefits decreased by $38,189 from 2012 to 2013. This was due primarily to a decrease in staff that was determined after the pupil count in fiscal year 2013.

Purchased services decreased by $289,868 from 2012 to 2013 due primarily to a decrease in pupil count in fiscal year 2013. Property tax expense decreased $75,466 due to a decrease in property taxes levied against the Academy.

Capital Assets

At the end of fiscal year 2013, the Academy had $102,447 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represents a decrease of $36,548 from 2012 to 2013. Table 3 shows the capital assets (net of depreciation) for fiscal years 2013 and 2012:

Table 3	2013	2012
Leasehold improvements	$ 55,570	$ 89,954
Furniture, fixtures, and equipment	46,877	49,041
Total capital assets	**$ 102,447**	**$ 138,995**

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

Current Financial Issues and Economic Factors

Lake Erie Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2012-2013 school year, there were 258 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including poverty-based assistance) for fiscal year 2013 amounted to $1,992,374.

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 73 percent of revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue.

As discussed in Note 6, the Academy was denied its application for an exemption from general property taxes during the 2011 fiscal year. As such, the Academy was party to a tax settlement agreement for which the Academy incurred $772,565 of tax expense payable to Lucas County over the next five years. This expense resulted in decreasing the Academy's net position to a deficit position for the year ended June 30, 2011 and continues to impact the ending net position as of June 30, 2013. Management's plans to eliminate the deficit are discussed in Note 14.

Contacting the Academy's Financial Management

This financial report is designed to provide the public 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, at 2125 University Park Drive, Okemos, MI 48864 or by email at don.ash@leonagroup.com.

Statement of Net Position
June 30, 2013

Assets	
Current assets:	
Cash (Note 3)	$ 188,362
Accounts receivable	7,760
Intergovernmental receivables (Note 4)	85,002
Prepaid expenses	20,000
Total current assets	301,124
Noncurrent assets - Depreciable capital assets - Net (Note 5)	102,447
Total assets	403,571
Liabilities	
Current liabilities:	
Accounts payable	46,554
Intergovernmental payables (Note 6)	139,510
Contracts payable (Note 13)	345,563
Total current liabilities	531,627
Noncurrent liabilities - Delinquent property taxes payable (Note 6)	195,717
Total liabilities	727,344
Net Position	
Net investment in capital assets	102,447
Unrestricted	(426,220)
Total net position	**$ (323,773)**

Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

Operating Revenue	
Foundation payments	$ 1,770,968
Poverty-based assistance	221,406
Federal grants - Unrestricted	550
Other revenue	22,024
Total operating revenue	2,014,948
Operating Expenses	
Salaries	987,196
Fringe benefits	338,462
Purchased services (Note 11)	1,230,244
Taxes (Note 6)	36,765
Materials and supplies	66,014
Depreciation (Note 5)	80,073
Other	33,699
Total operating expenses	2,772,453
Operating Loss	(757,505)
Nonoperating Revenue	
Federal grants	650,491
State grants	71,451
Total nonoperating revenue	721,942
Change in Net Position	(35,563)
Net Position - Beginning of year	(288,210)
Net Position - End of year	**$ (323,773)**

Statement of Cash Flows
Year Ended June 30, 2013

Cash Flows from Operating Activities		
Received from foundation payments	$	1,770,968
Received from poverty-based assistance		221,406
Received from federal grants		12,221
Received from other operating revenue		40,216
Payments to suppliers for goods and services		(1,647,882)
Payments to employees for services		(1,022,382)
Payments for employee benefits		(338,462)
Net cash used in operating activities		(963,915)
Cash Flows from Noncapital Financing Activities		
Proceeds from state aid note		175,000
Payments on state aid note		(175,000)
Payments on delinquent property taxes		(123,610)
Federal grants received		682,217
State grants received		71,451
Net cash provided by noncapital financing activities		630,058
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment		(43,525)
Net Decrease in Cash		(377,382)
Cash - Beginning of year		565,744
Cash - End of year	**$**	**188,362**
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(757,505)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation		80,073
Changes in assets and liabilities:		
Decrease in prepaid expenses		833
Decrease in intergovernmental receivables		11,671
Decrease in receivables		18,192
Increase in accounts payable		40,486
Decrease in intergovernmental payables		(35,186)
Decrease in contracts payable		(322,479)
Total adjustments		(206,410)
Net cash used in operating activities	**$**	**(963,915)**

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

Note 1 - Description of the Academy 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 kindergarten through tenth grade. 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 contract has since been extended for a period of seven years through June 30, 2014. 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, 2013 were $61,418.

The Academy operates under the direction of a six-member board of directors, which is also the governing board for another The Leona Group, LLC-managed school. 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 10 certified full-time teaching personnel who provide services to 258 students.

The governing board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability company, 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.

Basis of Presentation - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises whereby 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 whereby it has been decided that periodic determination of revenue 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 position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net position, 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 position. The statement of revenue, expenses, and changes in net position presents increases (i.e., revenue) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Receivables - Receivables at June 30, 2013 consisted of intergovernmental receivables and immaterial miscellaneous receivables. All receivables are considered collectible in full and will be received within one year.

Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid expenses 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.

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, fixtures and equipment, land, and leasehold improvements, or any one item costing under $1,000 alone but purchased in a group for over $2,500. 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 charged to expense when incurred.

Note 2 - Summary of Significant Accounting Policies (Continued)

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	4-5 years
Library books	6 years
Furniture, fixtures, and equipment	3-7 years

Net Position - Net position represents the difference between assets and liabilities. Net investments in capital assets consist 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 Revenue and Expenses - Operating revenue is revenue that is generated directly from the primary activities. For the Academy, this revenue is primarily from foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenue and expenses not meeting this definition are reported as nonoperating.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 Revenue - The Academy currently participates in the State Foundation Program and the State Poverty-based Assistance (PBA) Program. Revenue received from these programs is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Tax Status - The Academy is tax-exempt under §501(c)(3) of the Internal Revenue Code.

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounting Change - Effective July 1, 2012, the Academy implemented the provisions of Governmental Accounting Standards Board No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. This statement did not have a significant impact on the Academy's financial statements.

Effective July 1, 2012, the Academy implemented the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position.

Also effective July 1, 2012, the Academy implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

Note 3 - Deposits

The Academy has designated one bank 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.

Note 3 - Deposits (Continued)

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 credit risk are used for the Academy's deposits. At year end, the Academy's deposit balance of $223,966 of bank deposits were fully insured and collateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is sometimes 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 - Intergovernmental Receivables

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

Title I	$	49,782
Title IIA		300
Special Ed		21,918
Medicaid in Schools Program		2,838
STRS/SERS		3,300
Casino Revenue		6,864
Total intergovernmental receivables	$	85,002

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Business-type Activities				
Capital assets being depreciated:				
Leasehold improvements	$ 572,595	$ 12,000	$ -	$ 584,595
Library books	30,000	-	-	30,000
Furniture, fixtures, and equipment	254,768	31,525	-	286,293
Total capital assets being depreciated	857,363	43,525	-	900,888
Less accumulated depreciation:				
Leasehold improvements	482,641	46,384	-	529,025
Library books	30,000	-	-	30,000
Furniture, fixtures, and equipment	205,727	33,689	-	239,416
Total accumulated depreciation	718,368	80,073	-	798,441
Total capital assets being depreciated - Net	$ 138,995	$ (36,548)	$ -	$ 102,447

Note 6 - Intergovernmental Payables

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

STRS/SERS	$ 15,900
Current portion of tax settlement payable	123,610
Noncurrent portion of tax settlement payable	195,717
Total intergovernmental payables	$ 335,227

The Academy was denied its application for an exemption from general property taxes during the 2011 fiscal year. The Academy had not paid its general property taxes for fiscal years 2007, 2008, 2009, and 2010 in anticipation of receiving an exemption. The Academy entered into a payment agreement with Lucas County to pay this tax settlement due of $772,565 over the next five years, after a 20 percent downpayment of $154,513. The monthly payment due for the tax settlement is $10,301 commencing in February 2011. The Academy paid $123,610 on the tax settlement payable and $36,765 for current year property taxes due during the year ended June 30, 2013.

Note 7 - 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 2013, the Academy contracted with Philadelphia Indemnity Insurance Company for general liability insurance, property insurance, and educational errors and omissions insurance. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. Coverages are as follows:

Educational errors and omissions:	
Per occurrence	$ 1,000,000
Total per year	1,000,000
General liability:	
Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	1,000,000
Umbrella liability:	
Per occurrence	8,000,000
Total per year	8,000,000
Retention	10,000
Directors and officers liability:	
Per occurrence	1,000,000
Total per year	1,000,000
Retention	25,000

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 8 - 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 pension plan. SERS provides retirement, disability, and survivor 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. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. 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 Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the system. For fiscal year ended June 30, 2013, the allocation to pension and death benefits is 13.1 percent. The remaining 0.9 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2013, 2012, and 2011 were $42,268, $32,164, and $29,841, respectively; 76 percent has been contributed for fiscal year 2013, 100 percent for fiscal year 2012, and 78 percent for fiscal year 2011.

State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer, public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org under "*Publications.*"

Note 8 - Defined Benefit Pension Plans (Continued)

New members have a choice of three retirement plans: a defined benefit plan (DB), a defined contribution plan (DC), 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. The combined plan offers features of both the DC plan and the DB plan. In the combined plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. The DB portion of the combined plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011 were $133,102, $115,951, and $80,474, respectively; 90 percent has been contributed for fiscal year 2013, 78 percent has been contributed for fiscal year 2012, and 94 percent has been contributed for fiscal year 2011.

Note 9 - Postemployment Benefits

School Employees' Retirement System

Plan Description - The Academy participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees' Retirement System for classified retirees and their beneficiaries, the healthcare plan and a Medicare Part B plan. The healthcare plan includes hospitalization and physicians' fees through several types of plans, including HMOs, PPOs, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the system based on authority granted by state statute. The financial reports of SERS' Health Care and Medicare Part B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the healthcare benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For the 2013 fiscal year, the surcharge was $8,080.

Active employee members do not contribute to the Health Care Fund. Retirees and their beneficiaries are required to pay a healthcare premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were $516, $1,393, and $3,613, respectively; 76 percent has been contributed for fiscal year 2013, 100 percent for fiscal year 2012, and 78 percent for fiscal year 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were $2,388, $1,899, and $1,920, respectively; 76 percent has been contributed for fiscal year 2013, 100 percent for fiscal year 2012, and 78 percent for fiscal year 2011.

Note 9 - Postemployment Benefits (Continued)

State Teachers Retirement System

Plan Description - The Academy contributes to the cost-sharing, multiple-employer defined benefit health plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The plan is included in the report of STRS Ohio, which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the plan and gives the Retirement Board authority over how much, if any, of the healthcare costs will be absorbed by STRS Ohio. Active employee members do not contribute to the plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's required contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were $10,239, $8,919, and $6,190, respectively; 90 percent has been contributed for fiscal year 2013, 78 percent has been contributed for fiscal year 2012, and 94 percent for fiscal year 2011.

Note 10 - 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.

During the 2010 and 2011 grant years, the Academy failed to comply with maintenance of effort requirements associated with IDEA grant funds. As a result, the Academy must repay the State of Ohio $26,044. This amount was recorded as a liability and expense during the 2012-2013 fiscal year. In addition, the Academy has been notified by the State of Ohio that they have failed to comply with the maintenance of effort requirements for 2011-2012 fiscal year. As of the report date, the financial impact to the Academy has not been determined.

Note 10 - Contingencies (Continued)

State Foundation Funding - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The Academy does not anticipate any significant adjustments to State funding for fiscal year 2013 as a result of the reviews which have yet to be completed.

Note 11 - Purchased Service Expenses

For the year ended June 30, 2013, purchased service expenses were payments for services rendered by various vendors as follows:

Repairs and maintenance	$ 30,573
Legal	1,568
Insurance	20,371
Advertising	4,656
Dues and fees	27,744
Ohio Council of Community Schools	61,418
Cleaning services	12,195
Utility	87,525
Management fees (Note 13)	256,791
Other professional services	478,858
Other rentals and leases	8,545
Rent (Note 12)	240,000
Total purchased services	$ 1,230,244

Note 12 - Operating Leases

The Academy has entered into a lease for the period from July 1, 2003 through June 30, 2009, which was extended during 2010 through June 30, 2014, with Lake Erie Villa, LLC for the use of the main building, gymnasium, and grounds as a school facility. Under the lease agreement, the Academy is responsible for paying all utilities and applicable property taxes.

The Academy rents its building from Lake Erie Villa, LLC, an affiliate of The Leona Group, LLC through common ownership, and is a related party to the Academy. The Academy paid Lake Erie Villa, LLC $240,000 during fiscal year 2013.

Note 12 - Operating Leases (Continued)

In addition, the Academy leases equipment from an outside party. The two equipment leases were signed on July 21, 2011 and July 31, 2012, and are each effective for four years. The leases provide for monthly payments of $389 and $380, respectively. Rent expense for the equipment leases were approximately $8,500 for the year ended June 30, 2013.

The future minimum lease commitments as of June 30, 2013, are as follows:

Fiscal Years Ending June 30		Amount
2014		249,228
2015		9,228
2016		5,727
2017		1,140
	Total minimum lease payments	$ 265,323

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. The management agreement was renewed effective July 13, 2007 for a period of seven years to continue through June 30, 2014. In exchange for its services, The Leona Group, LLC receives a capitation fee of the difference between total audited revenue less total expenditures, which is adjusted further for capital asset activity. The Academy incurred management fees of $256,791 for the year ended June 30, 2013. At June 30, 2013, contracts payable include approximately $372,000 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

Note 13 - Management Agreement (Continued)

- 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 event 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.

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, 2013, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Salaries	$ 987,195
Fringe benefits	338,287
Professional and technical services	315,793
Other direct costs	14,674
Total expenses	$ 1,655,949

Note 14 - Management's Plans

As discussed in Note 6, the Academy was denied its application for an exemption from general property taxes during the 2011 fiscal year. As such, the Academy was party to a tax settlement agreement for which the Academy incurred $772,565 of tax expense payable to Lucas County over the next five years. This expense resulted in decreasing the Academy's net position to a deficit position for the year ended June 30, 2012.

Note 14 - Management's Plans (Continued)

The Academy has developed a five-year forecast approved by the board which forecasts sufficient cash flows to fund operations, including scheduled tax settlement payments over the next four years. The Academy has also adopted a budget resulting in an increase to the net position of the Academy for the 2014 fiscal year. The Academy will continue to actively monitor and control the expenditures of the Academy to achieve a positive operating position and net position balance for the Academy.

Note 15 - Subsequent Events

Subsequent to year end, the Academy borrowed $75,000 at a floating rate equal to the prime rate, which at June 30, 2013 was 3.25 percent. The note, plus interest, is due in 10 monthly installments commencing September 30, 2013.

Note 16 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Lake Erie Academy

Federal Awards
Supplemental Information
June 30, 2013

Contents

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Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditor's Report

To the Board of Directors
Lake Erie Academy

We have audited the basic financial statements of Lake Erie Academy (the "Academy") as of and for the year ended June 30, 2013 and have issued our report thereon dated December 13, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to December 13, 2013.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

East Lansing, Michigan
December 13, 2013

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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*

Independent Auditor's Report

To Management and the Board of Directors
Lake Erie Academy

We have audited, 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, the financial statements of Lake Erie Academy (the "Academy"), which comprise the basic statement of financial position as of June 30, 2013 and the related basic statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Erie Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness (Finding 2013-001).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be a material weakness (Finding 2013-001).

To Management and the Board of Directors
Lake Erie Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Erie Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Finding 2013-002. We also noted certain matters that we have reported to management of Lake Erie Academy in a separate letter dated December 13, 2013.

Lake Erie Academy's Response to Findings

Lake Erie Academy's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Lake Erie Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

East Lansing, Michigan
December 13, 2013

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Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Directors
Lake Erie Academy

Report on Compliance for the Major Federal Program

We have audited Lake Erie Academy's (the "Academy") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2013. Lake Erie Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Lake Erie Academy's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake Erie Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lake Erie Academy's compliance.

To the Board of Directors
Lake Erie Academy

Opinion on the Major Federal Program

In our opinion, Lake Erie Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Lake Erie Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lake Erie Academy's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lake Erie Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

East Lansing, Michigan
December 13, 2013

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Accrued Revenue at July 1, 2012	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2013
Clusters:						
Child Nutrition Cluster - U.S. Department of Agriculture -						
Passed through the Ohio Department of Education:						
National School Breakfast Program	10.553	$ 60,064	$ 7,319	$ 60,064	$ 52,745	$ -
National School Lunch Program	10.555	121,691	13,662	121,691	108,029	-
Total Child Nutrition Cluster		181,755	20,981	181,755	160,774	-
Special Education Cluster - U.S. Department of Education -						
Passed through the Ohio Department of Education -						
Special Education - Grants to States (IDEA, Part B) -						
IDEA, Part B - 2012-13	84.027	119,451	-	82,750	104,668	21,918
Title I, Part A Cluster - U.S. Department of Education -						
Passed through the Ohio Department of Education:						
Title I, Part A:	84.010					
2011-12		321,076	52,123	59,422	7,299	-
2012-13		320,420	-	276,921	312,884	35,963
School Improvement Sub A, Title I		55,000	-	29,330	43,149	13,819
Total Title I, Part A Cluster		696,496	52,123	365,673	363,332	49,782
Total clusters		997,702	73,104	630,178	628,774	71,700

See Note to Schedule of Expenditures of Federal Awards.

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Accrued Revenue at July 1, 2012	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2013
Other federal awards - U.S. Department of Education - Passed through the Ohio Department of Education:						
ARRA - Race to the Top - Early Learning Challenge 2011-12	84.395	$ 97,596	$ 727	$ 727	$ -	$ -
ARRA - Race to the Top - Early Learning Challenge 2012-13		69,173	-	17,789	17,789	-
Total Race to the Top		166,769	727	18,516	17,789	-
Fresh Fruit and Vegetable Program	10.582	3,560	1,591	3,560	1,969	-
Education Jobs Fund	84.410	94,703	11,671	12,221	550	-
Improving Teacher Quality	84.367	7,485	1,307	2,966	1,959	300
Total noncluster programs passed through the Ohio Department of Education		272,517	15,296	37,263	22,267	300
Total federal awards		**$ 1,270,219**	**$ 88,400**	**$ 667,441**	**$ 651,041**	**$ 72,000**

See Note to Schedule of Expenditures of Federal Awards.

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Lake Erie Academy (the "Academy") under programs of the federal government for the year ended June 30, 2013. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Lake Erie Academy, it is not intended to, and does not, present the financial position, changes in net position, or cash flows, if applicable, of Lake Erie Academy. Pass-through entity identifying numbers are presented where available.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	X	Yes		No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Noncompliance material to financial statements noted?	X	Yes		No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?		Yes	X	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I, Part A Cluster

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee?		Yes	X	No

Section II - Financial Statement Audit Findings

Reference Number	Finding
2013-001	**Finding Type** - Material weakness

Criteria - In accordance with the Individuals with Disabilities Education Improvement Act (IDEA) of 2004, Sec.613 (A)(iii), and federal regulation section 300.203, states must ensure that all Local Educational Agencies (LEA) budget and expend for the education of children with disabilities in local or state and local funds, an amount which is at least the same in total or per capita as the amount spent in the most recent fiscal year for which information is available. Additionally, the Academy became aware during 2012-2013 that due to this failure it would be required to pay back disallowed cost in the amount of $26,044. Under accounting standards generally accepted in the United States of America, these grant funds are required to be recorded in the year in which the liability for future repayment is discovered.

Condition - The Academy did not maintain a combined fiscal effort per student or aggregate expenditures of state and local funds from the preceding fiscal year in order to maintain the level of effort required. Additionally, the Academy failed to record a liability for disallowed grant funds to the State of Ohio during the year in accordance with accounting standards generally accepted in the United States of America.

Context - During the audit for the 2012-2013 fiscal year, it was noted that the Academy did not record the liability associated with the disallowed costs of $26,044 that resulted from the inability of the Academy to maintain level of effort.

Cause - Due to the lack of maintenance of level of effort, the Academy did not comply with the requirements of IDEA of 2004, Sec.613 (A)(iii), and federal regulation section 300.203. Additionally, the amount of allocation of funds under the applicable program for the 2011-2012 fiscal year was reduced by $26,044 of costs that is required to be reported as a liability for 2012-2013.

Effect - The Academy's expenditures and liabilities were both understated by $26,044.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-001 (Con't)	**Recommendation** - The Academy should implement a policy to ensure that aggregate expenditures or fiscal effort per student for the fiscal year meet or exceed those expenditures for the preceding fiscal year. Additionally, a qualified individual should review contingent liabilities and subsequent disbursements to determine that all potential amounts are being properly recorded.
	The Academy has been notified by the State of Ohio that they have failed to comply with the maintenance of effort requirements for the 2011-2012 fiscal year. As of the report date, the financial impact to the Academy has not been determined.
	Views of Responsible Officials and Planned Corrective Actions - The Academy will implement a policy so that maintenance of effort is maintained from year to year. The Academy recorded the expense for the disallowed costs in 2013-2014, unaware that the 2011-2012 disallowed costs were required to be recorded in 2012-2013, if at all possible. Contingent liabilities will be reviewed going forward so that amounts are properly recorded in the year required.

Reference Number	Finding
2013-002	**Finding Type** - Material noncompliance with laws and regulations
	Criteria - In accordance with Ohio Rev. Code section 3314.03, "the governing authority will adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in one hundred five (105) consecutive hours of the learning opportunities offered to the student."
	Condition - During our Ohio compliance testing, a student that withdrew from the Academy did not attend class during the 2012-2013 school year. However, this student was not reported as withdrawn until October 10, 2013 (which is in violation of section code 3314.03).
	Context - The student in question missed greater than 105 consecutive hours of offered learning opportunities and was in violation of the criteria stated above.
	Cause - The Academy's attendance records were not compared to the listing of withdrawn students resulting in the Acadamy not being in compliance with the required section code.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-002 (Con't)	**Effect** - The Academy's listing of withdrawn students was not complete and they failed to meet the required criteria of the Ohio Rev. Code section 3314.03.
	Recommendation - An individual should compare the listing of withdrawn students to attendance records for completeness.
	Views of Responsible Officials and Planned Corrective Actions - The Academy will assign an individual to compare the listing of withdrawn students to attendance records to ensure that each student is reported properly to the State of Ohio in order to comply with Ohio Rev. Code section 3314.03.

Section III - Federal Program Audit Findings

None

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Independent Accountant's Report on
Applying Agreed-upon Procedure

To the Board of Directors
Lake Erie Academy
Lucas County
2740 W. Central Ave.
Toledo, OH 43606

Dear Board Members:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Lake Erie Academy has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on May 10, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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

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

Plante & Moran, PLLC

December 13, 2013
East Lansing, Michigan

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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
MARCH 4, 2014

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