LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY

REGULAR AUDIT

FOR THE PERIOD AUGUST 25, 2003 THROUGH JUNE 30, 2004

Auditor of State
Betty Montgomery

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Little Eagle Kindergarten Program
Stark County
901 44th Street, N.W.
Canton, Ohio 44709

To the Board of Directors:

We have audited the accompanying basic financial statements of the Little Eagle Kindergarten Program, Stark County, Ohio, (the School) a component unit of the Plain Local School District, as of and for the period August 25, 2003 through June 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the School'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 Little Eagle Kindergarten Program, Stark County, Ohio, for the period August 25, 2003 through June 30, 2004, and the changes in financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

December 17, 2004

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 25, 2003 THROUGH JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Little Eagle Kindergarten Program's (the "School") financial performance provides an overall review of the School's financial activities for the period August 25, 2003 through June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets were $117,297 at June 30 2004.

- The School had operating revenues of $70,671 and operating expenses of $253,600 for fiscal year 2004. The School also received $48,000 in federal and state grants during fiscal year 2004. Total change in net assets for the fiscal year was a decrease of $134,929.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The table below provides a summary of the School's net assets for fiscal year 2004. Since this is the first year that the School has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Net Assets

	2004
Assets	
Current assets	$ 92,063
Capital assets, net	25,358
Total assets	117,421
Liabilities	
Current liabilities	124
Total liabilities	124
Net Assets	
Invested in capital assets	25,358
Restricted	57,656
Unrestricted	34,283
Total net assets	$ 117,297

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the School's assets exceeded liabilities by $117,297.

At year-end, capital assets represented 21.60% of total assets. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

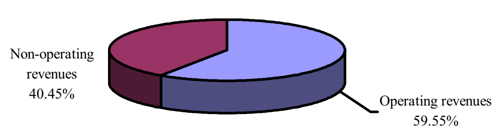
The table below shows the changes in net assets for fiscal year 2004. Since this is the first year that the School has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

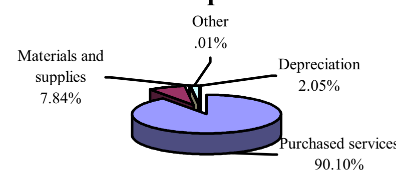
	2004
Operating Revenues:	
State foundation	$ 69,704
Other	967
Total operating revenue	70,671
Operating Expenses:	
Purchased services	228,492
Materials and supplies	19,887
Other	29
Depreciation	5,192
Total operating expenses	253,600
Non-operating revenues:	
Federal and state grants	48,000
Total non-operating revenues	48,000
Change in net assets	$ (134,929)

The charts below illustrate the revenues and expenses for the School during fiscal 2004.

2004 Revenues



2004 Expenses



Capital Assets

At June 30, 2004, the School had $25,358 invested in furniture and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The School is sponsored by the Plain Local School District. The School relies on the State Foundation Funds as well as the Federal Sub-Grants to provide the monies necessary to begin the start-up of a kindergarten school. The School will be eligible to apply for a third round of Federal Sub-Grants after round two funds have been exhausted in December 2004. These funds will help expand the current program.

The future of the School is dependent upon continued funding from the State Foundation Funds as no local revenue can be generated through tuition or property taxes. At this point in time the School is eligible to apply for one more round of Federal monies to be awarded up to an amount of $150,000. It is the intention of the management of the School to pursue other State and Federal sub grants as they become available.

In conclusion, the Little Eagle Kindergarten Program has committed itself to providing premier early childhood opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the School.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Kathleen Jordan, CFO, Little Eagle Kindergarten Program, 901 44th Street, NW, Canton, Ohio 44709-1699.

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets:		
Current assets:		
Equity in pooled cash and cash equivalents. . .	$	49,328
Receivables:		
Intergovernmental.		42,300
Prepayments		435
Total current assets		92,063
Non-current assets:		
Capital assets, net.		25,358
Total assets		117,421
Liabilities:		
Current liabilities:		
Accounts payable		124
Total current liabilities		124
Net Assets:		
Invested in capital assets		25,358
Restricted for:		
Other purposes.		57,656
Unrestricted.		34,283
Total net assets	$	117,297

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD AUGUST 25, 2003 THROUGH JUNE 30, 2004

Operating revenues:	
State foundation	$ 69,704
Other	967
Total operating revenues	70,671
Operating expenses:	
Purchased services	228,492
Materials and supplies	19,887
Other operating expenses	29
Depreciation	5,192
Total operating expenses	253,600
Operating loss	(182,929)
Non-operating revenues:	
Federal and state grants	48,000
Total non-operating revenues	48,000
Change in net assets	(134,929)
Net assets at beginning of year	252,226
Net assets at end of year	$ 117,297

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE PERIOD AUGUST 25, 2003 THROUGH JUNE 30, 2004

Cash flows from operating activities:	
Cash received from State foundation	$ 69,704
Cash received from other operations	967
Cash payments to suppliers for goods and services	(228,927)
Cash payments for materials and supplies	(19,763)
Cash payments for other expenses	(29)
Net cash used in operating activities	(178,048)
Cash flows from noncapital financing activities:	
Federal and state grants	110,700
Net cash provided by noncapital financing activities	110,700
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(23,698)
Net cash used in capital and related financing activities	(23,698)
Net decrease in cash and cash equivalents	(91,046)
Cash and cash equivalents at beginning of year	140,374
Cash and cash equivalents at end of year	$ 49,328
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (182,929)
Adjustments:	
Depreciation	5,192
Changes in assets and liabilities:	
Increase in prepayments	(435)
Increase in accounts payable	124
Net cash used in operating activities	$ (178,048)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE SCHOOL

The Little Eagle Kindergarten (the "School") was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Plain Local School District (the "Sponsor") addressing the needs of students in kindergarten. The School, 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 School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School is considered a component unit of the Plain Local School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The School provides opportunities for school aged students whose parents are seeking a "center experience" in a developmentally appropriate environment. The School continues to develop a full day educational experience using the latest early childhood research to reach a diverse student population. Enrollment is limited to students within the attendance area of the Sponsor. Due to the recent research findings in the area of early literacy, technology and the arts, as well as the growing need for many of our students to experience safe, caring and learner-focused programs, we believe the time is optimal to continue an effective alternative full day program in a developmentally appropriate center environment. The School will use the services of the Sponsor, community, early childhood specialists, the Stark County Educational Service Center and the Stark Portage Area Computer Consortium to assist with overall programming and operations.

The School was approved under contract with the Sponsor for a period of five years commencing July 1, 2002. The School began operations on August 25, 2003. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the School.

The School operates under the direction of a five-member Board of Directors. The Board is composed of the Sponsor's Superintendent together with two other licensed administrators who are employed by the Sponsor. The Board also includes two other persons who are neither officers nor staff members of the School or Sponsor to serve as voting members. One of the members is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the School. The other member is a representative appointed by the School who within one year following the incorporation of the School, be replaced by a person who represents the interests of parents and students served by the School. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers.

The Sponsor, under a purchased services basis with the School, provides planning, instructional, administrative and technical services. Personnel providing services to the School on behalf of the Sponsor under the purchased services basis are considered employees of the Sponsor, and the Sponsor is solely responsible for all payroll functions. The School provides services to approximately twenty-five students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The School has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The School has elected not to apply these FASB Statements and Interpretations. The School's significant accounting policies are described below.

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) 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.

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

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

D. Cash

All monies received by the School are deposited in a demand deposit account.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School maintains a capitalization threshold of $750. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five to twenty years.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

H. Intergovernmental Revenue

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Federal and State grants for the fiscal year 2004 received by the School was $153,000.

I. Estimates

The preparation of financial statements in conformity with GAAP 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.

NOTE 3 - DEPOSITS

At June 30, 2004, the carrying amount of the School's deposits was $49,328 and the bank balance was $52,271. The bank balance was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period August 25, 2003 through June 30, 2004, was as follows:

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Furniture and equipment	$ 7,213	$ 23,698	$ -	$ 30,911
Less: accumulated depreciation	(361)	(5,192)	-	(5,553)
Capital assets, net	$ 6,852	$ 18,506	$ -	$ 25,358

NOTE 5 - RECEIVABLES

The School participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded $150,000 during the year ended June 30, 2004 to offset start-up costs of the School. Revenue received from this program is recognized as grants and subsidies in the accompanying financial statements. $42,300 of this award was receivable at June 30, 2004. This amount is presented as "Intergovernmental" on the statement of net assets. All intergovernmental receivables are considered collectible in full due to the current year guarantee of Federal funds.

NOTE 6 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2004, the School was named on the Sponsor's policy with Indiana Insurance Company for property and general liability insurance.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2004, purchased services expenses were as follows:

Professional and technical services	$216,979
Property services	10,116
Travel and meetings	1,310
Communications	87
Total	$228,492

NOTE 8 - RENTAL/PERSONNEL AGREEMENT

The School entered into a rental/personnel agreement with the Plain Local School District for the use of classrooms, office space, and personnel services. This agreement was for the period of one year beginning July 1, 2003, with an automatic renewal option. Annual payments for the fiscal year 2004 were $10,028 for rent and $203,500 for personnel services.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

The School has contracted its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting contributions to each of the systems noted below:

A. School Employees Retirement System

The School's Sponsor contribute on behalf of the School to the School Employees Retirement System of Ohio (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2004, 9.09% of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations for the period August 25, 2003 through June 30, 2004, were paid by the School's Sponsor.

NOTE 9 - DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

The School's Sponsor contributes on behalf of the School to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Effective July 1, 2001, two new plan options were offered to selected members. 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% 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 DB Plan during the fifth year of membership unless they permanently select the DC or Combined Plan

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. As a comparison, 13% was used to fund pension obligations in 2003. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School's required contributions for pension obligations to STRS for the period August 25, 2003 through June 30, 2004 were paid by the School's Sponsor.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was $2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were $352.301 million and STRS had 108,294 eligible benefit recipients.

NOTE 10 - POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.9% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at $25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were $204.931 million and the target level was $307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of $303.6 million and SERS had approximately 50,000 participants receiving health care benefits. The School's costs were paid by the School's Sponsor.

NOTE 11 - SCHOOL FUNDING DECISION

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

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

NOTE 12 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the states public educational system and the matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

NOTE 12 - CONTINGENCIES – (Continued)

C. 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 School was reviewed two times during this initial year of operations and zero errors were found in enrollment, withdrawals and attendance. The School owes the Ohio Department of Education $1,526 as a result of the reviews.

NOTE 13 - START-UP PERIOD

The School began its operations August 25, 2003. At August 25, 2003, the School recorded $140,374 in cash, $105,000 in grant funding receivable, and net capital assets purchased prior to August 25, 2003, of $6,852. The combination of these transactions resulted in a beginning net assets at August 25, 2003 of $252,226.

NOTE 14 – RELATED PARTY TRANSACTION

Golden Eagle Digital Academy and Plain Local Academy of Technology all have the same board members as Little Eagle Kindergarten Program. There were no financial contributions between these related party entities.

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

Little Eagle Kindergarten Program
Stark County
901 44th Street, N.W.
Canton, Ohio 44709

To the Board of Directors

We have audited the basic financial statements of the Little Eagle Kindergarten Program, Stark County, Ohio, (the School) a component unit of the Plain Local School District, as of and for the period August 25, 2003 through June 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

However, we noted a matter involving the internal control over financial reporting that does not require inclusion, in this report, that we have reported to the Academy's management in a separate letter dated December 17, 2004.

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

Betty Montgomery

Betty Montgomery
Auditor of State

December 17, 2004

Auditor of State
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LITTLE EAGLE KINDERGARTEN PROGRAM

STARK 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 17, 2005