Paul Laurence Dunbar Academy
Lucas County

Financial Report

June 30, 2005

plante moran

Auditor of State
Betty Montgomery

Board of Directors
Paul Laurence Dunbar Academy
4660 South Hagadorn Road, Suite 500
East Lansing, MI 48823

We have reviewed the *Independent Auditor's Report* of the Paul Laurence Dunbar Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2004 through June 30, 2005. 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 Paul Laurence Dunbar Academy is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 8, 2006

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Paul Laurence Dunbar Academy
Lucas County

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Independent Auditor's Report

To the Board of Directors
Paul Laurence Dunbar Academy

We have audited the accompanying basic financial statements of Paul Laurence Dunbar Academy, (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2005, and the changes in financial position and cash flows, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated April 13, 2006 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 opinions on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Directors
Paul Laurence Dunbar Academy

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

Plante & Moran, PLLC

April 13, 2006

plante moran

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

To the Board of Directors
Paul Laurence Dunbar Academy

We have audited the basic financial statements of Paul Laurence Dunbar Academy, as of and for the year ended June 30, 2005, and have issued our report thereon dated April 13, 2006. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of Paul Laurence Dunbar Academy in a separate letter dated April 13, 2006.

To the Board of Directors
Paul Laurence Dunbar Academy

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

Plante & Moran, PLLC

April 13, 2006

The management's discussion and analysis of Paul Laurence Dunbar Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- In total, net assets increased $55,748, which represents a 27 percent increase from 2004. This increase was due to an increase in students and a related increase in state foundation monies and Disadvantaged Pupil Instructional Aid. There was also an increase in federal subsidies.
- Total assets decreased $59,001, which represents a 12 percent decrease from 2004. This was primarily due to a decrease in intergovernmental receivables.
- Liabilities decreased $114,749 which represents a 42 percent increase from 2004. This decrease was due to the decrease in payables due to income taxes and a decrease in contracts payable for accrued payroll at the end of the fiscal year.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during 2005?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table I provides a summary of the Academy's net assets for fiscal year 2005 and fiscal year 2004:

TABLE I

	June 30	
	2005	2004 (restated)
Assets		
Current assets	$ 262,450	$ 357,853
Capital assets - Net	153,483	117,081
Total assets	415,933	474,934
Liabilities - Current liabilities	154,271	269,020
Net Assets		
Invested in capital assets	153,483	117,081
Unrestricted	108,179	88,833
Total net assets	**$ 261,662**	**$ 205,914**

Total assets decreased $59,000. This was primarily due to a decrease in intergovernmental receivables. Cash increased by $3,605 from 2004. Intergovernmental receivables decreased by $114,991. This decrease was due to the timing of the receipt of federal and state funding. Capital assets, net of depreciation, increased by $36,402 primarily due to furniture and library book purchases.

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2005, as well as a listing of revenues and expenses:

TABLE 2

	June 30	
	2005	2004 (restated)
Operating Revenues		
Foundation payments	$ 1,059,730	$ 984,842
Disadvantaged pupil impact aid	218,739	138,179
Charges for services	1,511	933
Other	400	1,748
Nonoperating Revenues		
Federal grants	390,483	398,826
State grants	17,224	11,508
Total revenues	1,688,087	1,536,036
Operating Expenses		
Salaries	607,772	521,091
Fringe benefits	200,535	169,017
Purchased services	665,110	571,193
Materials and supplies	106,594	123,002
Depreciation (unallocated)	31,590	9,586
Other expenses	3,206	4,331
Nonoperating Expenses		
Taxes	17,532	57,286
Total expenses	1,632,339	1,455,506
Increase in Net Assets	**$ 55,748**	**$ 80,530**

Net assets increased from 2004 to 2005 and the amount of change in net assets from the beginning to the end of each year decreased by $24,782. This was primarily due to the increase in foundation revenue and federal subsidies. There was an increase in revenues of $152,051 and an increase in expenses of $176,833 from 2004. Of the increase in revenues, the foundation payments increased by $74,888. Community schools receive no support from tax revenues.

The expense for salaries increased by $86,681. This was primarily due to an increase in staff during fiscal year 2005. Materials and supplies expense decreased by $16,408 from 2004. Due to the increase in state foundation revenues, more textbooks were purchased for the Academy. Depreciation expense increased by $22,004.

Capital Assets

At the end of fiscal year 2005, the Academy had $196,747 invested in buildings and improvements, library books, and furniture, fixtures, and equipment, which represented an increase of $67,992 from 2004. Table 3 shows fiscal year 2005 and fiscal year 2004 capital assets (net of depreciation):

TABLE 3	June 30	
	2005	2004
Buildings and building improvements	$ 22,754	$ 18,601
Library books	23,090	-
Furniture, fixtures, and equipment	107,638	98,480
Total capital assets	**$ 153,482**	**$ 117,081**

For more information on capital assets see Note 6 to the basic financial statements.

Current Financial Issues

Lake Erie Academy was formed in 2001 under contract with the Ohio Council of Community Schools. During the 2004-2005 school year, there were approximately 189 students enrolled in the Academy. The Academy receives its finances mostly from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2005 amounted to $1,278,469.

Contacting the School's Financial Management

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

Statement of Net Assets
June 30, 2005

Assets	
Current assets:	
Cash (Note 4)	$ 215,176
Intergovernmental receivables (Note 5)	11,924
Prepaid expenses	35,350
Total current assets	262,450
Noncurrent assets:	
Depreciable capital assets - Net (Note 6)	153,483
Total assets	415,933
Liabilities	
Current liabilities:	
Accounts payable	12,397
Contracts payable	141,874
Total liabilities	154,271
Net Assets	
Invested in capital assets - Net of related debt	153,483
Unrestricted	108,179
Total net assets	$ 261,662

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2005

Operating Revenues	
Foundation payments	$ 1,059,730
Disadvantaged pupil impact aid	218,739
Charges for services	1,511
Other revenues	400
Total operating revenues	1,280,380
Operating Expenses	
Salaries	607,772
Fringe benefits	200,535
Purchased services (Note 12)	665,110
Materials and supplies	106,594
Depreciation	31,590
Other	3,206
Total operating expenses	1,614,807
Operating Loss	(334,427)
Nonoperating Revenues (Expenses)	
Federal grants	390,483
State grants	17,224
Federal and state taxes	(17,532)
Total nonoperating revenues	390,175
Change in Net Assets	55,748
Net Assets - Beginning of year, as restated (Note 16)	205,914
Net Assets - End of year	**$ 261,662**

Statement of Cash Flows
Year Ended June 30, 2005

Cash Flows from Operating Activities	
Received from foundation payments	$ 1,059,730
Received from disadvantaged pupil impact aid	218,739
Received from other operating revenues	36,092
Payments to suppliers for goods and services	(860,802)
Payments to employees for services	(595,326)
Payments for employee benefits	(200,535)
Net cash used in operating activities	(342,102)
Cash Flows from Noncapital Financing Activities	
Federal grants received	471,293
State grants received	17,224
Federal and state taxes	(74,818)
Net cash provided by noncapital financing activities	413,699
Cash Flows from Capital and Related Financing Activities	
Payments for capital acquisitions	(67,992)
Net Increase in Cash	3,605
Cash - Beginning of year	211,571
Cash - End of year	**$ 215,176**

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

Statement of Cash Flows (Continued)
Year Ended June 30, 2005

Reconciliation of operating loss to net cash from operating activities:		
Operating loss	$	(334,427)
Adjustments to reconcile operating loss to cash from operating activities:		
Depreciation		31,590
Changes in assets and liabilities:		
Decrease in intergovernmental receivable		34,181
Increase in prepaid items		(15,983)
Decrease in accounts payable		(31,041)
Decrease in contracts payable		(26,422)
Total adjustments		(7,675)
Net cash used in operating activities	**$**	**(342,102)**

Note 1 - Description of the School and Reporting Entity

Paul Laurence Dunbar Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through sixth. The Academy's mission is to educate, excite, and empower students; educating them when choices in public education have been unsatisfactory for their need; exciting them in an atmosphere where a love of learning and the arts is pervasive; empowering them by providing the tools of heightened self-esteem, tolerance for others, and respect for the dignity of others. At all times, excellence is the achievable goal. 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 contract with the Ohio Council of Community Schools (the Sponsor) for a period of five years through June, 30, 2007. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The total sponsor fees paid to the Ohio Council of Community Schools was approximately $40,000.

The Academy operates under the direction of a five-member Board of Directors which also is the Governing Board for four other Leona Group Schools (See Note 14). 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 13 certificated full-time teaching personnel and 2 certified part-time employees who provide services to 189 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for profit limited liability corporation, for management services and operation of its 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 and year-end fee (See Note 15).

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Paul Laurence Dunbar Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

Basis of Presentation - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

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

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. 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 basic 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)

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

Intergovernmental Receivables - Receivables at June 30, 2005, consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which 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, equipment, land, and buildings, or any one item costing under $1,000 alone but purchased in a group for over $2,500. Software costing more than $10,000 per application will also be capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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:

Buildings and improvements	39 years
Furniture, fixtures, and equipment	3-7 years
Library books	6 years

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

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

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

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

Tax Status - The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 2004 and has filed for an extension for fiscal year 2005. Amounts owed to the IRS and State of Ohio at June 30, 2005 are reported on the statement of net assets as taxes payable.

Note 3 - Changes in Accounting Principles

Effective July 1, 2005, the Academy will adopt the provisions of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement will require governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital assets. In addition, the Statement requires all governments to account for the insurance recoveries in the same manner. The Academy's management does not believe this accounting change will have a significant impact.

Note 4 - Deposits

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of $233,961 had $131,814 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - Receivables

A summary of the principal items of intergovernmental receivables follows:

Federal Child Nutrition	$	10,441
Title IV		1,293
Other		190
Total all intergovernmental receivables	$	11,924

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005 is as follows:

	Balance June 30, 2004	Additions	Balance June 30, 2005
Business-type activity:			
Capital assets being depreciated:			
Buildings and improvements	$ 18,899	$ 4,707	$ 23,606
Library books	-	25,981	25,981
Furniture, fixtures, and equipment	109,856	37,304	147,160
Total capital assets being depreciated	128,755	67,992	196,747
Less accumulated depreciation:			
Buildings and improvements	298	553	851
Library books	-	2,891	2,891
Furniture, fixtures, and equipment	11,376	28,146	39,522
Total less accumulated depreciation	(11,674)	(31,590)	(43,264)
Total capital assets being depreciated - Net	$ 117,081	$ 36,402	$ 153,483

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 2005, the Academy contracted with EMC Insurance Company for general liability, property insurance, and educational errors and omissions insurance.

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

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

Note 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 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 statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Note 8 - Defined Benefit Pension Plans (Continued)

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. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were $13,551, $14,368, and $8,030, respectively, equal to the required contributions for each year, of which 100 percent has been contributed.

State Teachers Retirement System of Ohio

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

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

Note 8 - Defined Benefit Pension Plans (Continued)

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

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

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

Note 8 - Defined Benefit Pension Plans (Continued)

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

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

Benefits are increased annually by 3 percent of the original base amount for Defined Benefit Plan participants.

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

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005, were 10 percent of covered payroll for members and 14 percent for employers; 13 percent of the portion was used to fund pension obligations. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were $59,354, $44,214, and $40,015 respectively; equal to 62 percent of the required contributions for the fiscal year ended June 30, 2005 and 100 percent for the fiscal years ended June 30, 2004 and 2003.

Note 8 - Defined Benefit Pension Plans (Continued)

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

Note 9 - Postemployment Benefits

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including the surcharge, was $5,919 for fiscal year 2005. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2005 were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of benefit recipients currently receiving heath care benefits is approximately 58,123.

Note 9 - Postemployment Benefits (Continued)

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

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005 and June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005.

For The Academy, this amount equaled $4,566 during the 2005 fiscal year. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

Note 10 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient."

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

Note 11 - Contingencies

Grants - The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

State Funding - The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2005 student enrollment data and FTE calculations. For fiscal year 2005, the results of this review resulted in an increase of $17,915 that will be included in future foundation funding.

Litigation - A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state 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 on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision the Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred on November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

Note 12 - Purchased Service Expense

For the year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	$	14,736
Legal		403
Insurance		14,995
Advertising		8,919
Ohio Council of Community Schools		1,470
The Leona Group, LLC (Note 15)		255,987
Cleaning services		1,367
Other rentals and leases		12,982
Utility		15,801
Dues and fees		2,715
Other professional services		205,923
Building lease agreements		129,812
Total purchased services	$	665,110

Note 13 - Operating Leases

The Academy has entered into a lease for the period of August 1, 2004 through July 31, 2009, with an annual renewal term, for the use of the main building, gymnasium, and grounds at a school facility. Payments made for the fiscal year totaled $141,595.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2005:

Fiscal Year Ending June 30		Facility Lease
2006	$	141,400
2007		141,400
2008		141,400
2009		141,400
2010		11,783
Total minimum lease payments	$	577,383

Note 14 - Related Parties

Three Board members of the Academy are employees of The Leona Group, LLC (TLG). The Academy contracts with TLG for the operation of its school, including program evaluation; human resources; staffing, supervision and performance review; fiscal services and accounting; and compliance. As stated in Note 12, the Academy paid TLG $255,987 during fiscal year 2005.

The Academy's Governing Board consists of the same members as the Governing Board for Eagle Academy, Toledo Accelerated Academy, George A. Phillips Academy, and Lake Erie Academy.

Note 15 - Management Agreement

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12 percent of the per-pupil expenditures and a year-end fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The Academy incurred management fees totaling $255,987 for the year ended June 30, 2005. At June 30, 2005, accrued expenses include $55,314 for the payment of management fees and approximately $86,000 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require TLG to provide the following:

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

Note 15 - Management Agreement (Continued)

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

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

For the year ended June 30, 2005, The Leona Group LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries and wages	$ 607,772
Employees' benefits	200,535
Professional and technical services	25,089
Other direct costs	12,769
Indirect expenses:	
Overhead	-
Total Expenses	$ 846,165

Note 16 - Prior Period Adjustment

Net asset balance at the beginning of 2005 has been adjusted to properly recognize management fee expenses incurred in the prior year. The adjustment had no effect on the change in net assets for 2005.

Net Assets - Beginning of year, as previously reported	$ 286,444
Prior period adjustment - Proper recognition of management fee expenses related to prior year	(80,530)
Net Assets - Beginning of year, as restated	$ 205,914

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PAUL LAURENCE DUNBAR 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
SEPTEMBER 21, 2006