Eagle Academy
Lucas County

Financial Report

June 30, 2007

Mary Taylor, CPA
Auditor of State

Board of Directors
Eagle Academy
4660 S. Hagadorn Road, Suite 500
East Lansing, Michigan 48823

We have reviewed the *Independent Auditor's Report* of the Eagle Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2006 through June 30, 2007. 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 Eagle Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 17, 2007

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Independent Auditor's Report

To the Board of Directors
Eagle Academy

We have audited the accompanying basic financial statements of Eagle Academy (the "Academy") as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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, 2007 and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 9, 2007 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide 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.

Plante & Moran, PLLC

November 9, 2007

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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
Eagle Academy

We have audited the financial statements of Eagle Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated November 9, 2007. 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 Eagle Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Eagle Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eagle Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following control deficiencies to be significant deficiencies in internal control over financial reporting:

- The Academy has entered into a management agreement that states that management fees are 12 percent of total revenue. The Academy did not record management fees related to the accounts receivable at June 30, 2007. An adjusting journal entry was proposed and recorded to increase management fee expense and the related accrual by $1,701. Total expenses and liabilities would have been understated had the adjustment not been made. In order to prevent and detect such misstatements from occurring, we recommend that the accounting personnel recalculate management fees expense from the amount of revenue recorded on the final trial balance.

- Bonuses should be recorded as an expense in the year the bonuses were earned. The Academy mistakenly recorded twice the current year bonus accrual. An adjustment to decrease the expense and the accrual for $6,787 is included in the summary of unrecorded possible adjustments. Currently, total expenses and liabilities are overstated by this amount. We recommend that someone other than the person recording the entry review the detail of the accruals to ensure that they are properly recorded and the balances are accurate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. 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 Eagle 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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
Eagle Academy

Ohio Revised Code Section 3314.03A states that community schools established prior to April 8, 2003 must be nonprofit corporations under ORC 1702. The Academy was established prior to April 8, 2003 and was subsequently denied nonprofit status under Section 501(c)(3) under the Internal Revenue Code because of the previous board of director's relationship with the management company. The board was recently reorganized in order to comply with the provisions for nonprofit status. Actions have since been taken to obtain nonprofit status. In addition, Ohio Revised Code Section 3314.082 prohibits community schools from using foundation money to pay taxes, including federal, state, and local income taxes, sales taxes, and personal and real property taxes. However, the Academy's for-profit status requires it to pay income taxes. We recommend that the Academy continue to monitor and follow up on any issues related to obtaining nonprofit status.

We also noted certain immaterial instances of noncompliance and other matters that we have reported to the management of Eagle Academy in a separate letter dated November 9, 2007.

This report is intended for the information and use of management, the board of directors, the sponsor, federal-awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 9, 2007

The management's discussion and analysis of Eagle Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. 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 its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government,* issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets decreased $6,890, which represents a 20 percent decrease from 2006.
- Total assets decreased $95,253, which represents a 38 percent decrease from 2006. This was due primarily to a decrease in cash and intergovernmental receivables.
- Liabilities decreased $88,363, which represents a 31 percent decrease from 2006. This decrease was due to the decrease in contracts payable, notes payable, and accounts 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 assets (deficit), a statement of revenues, expenses, and changes in net assets (deficit), and a statement of cash flows.

Statement of Net Assets (Deficit)

The statement of net assets (deficit) answers the question, "How did we do financially during 2007?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 and 2006:

TABLE 1

	Governmental Activities	
	June 30	
	2007	2006
Assets		
Current assets	$ 134,163	$ 210,618
Capital assets - Net	21,323	40,121
Total assets	155,486	250,739
Liabilities		
Current liabilities	176,604	264,967
Noncurrent liabilities	20,000	20,000
Total liabilities	196,604	284,967
Net Assets (Deficit)		
Invested in capital assets	21,323	40,121
Unrestricted	(62,441)	(74,349)
Total net assets (deficit)	**$ (41,118)**	**$ (34,228)**

Total assets decreased $95,253. This was due primarily to a decrease in cash and intergovernmental receivables. Cash decreased by $46,126. Intergovernmental receivables decreased by $21,004 from 2006. This decrease was due to the timing of the receipt of some grants. Capital assets, net of depreciation, decreased by $18,798 from 2006 due to the depreciation of furniture, fixtures, and equipment.

Table 2 shows the changes in net assets for fiscal year 2007 and 2006, as well as a listing of revenues and expenses.

TABLE 2	Governmental Activities	
	Year Ended June 30	
	2007	2006
Operating Revenues		
Foundation payments	$ 915,969	$ 640,252
Disadvantaged pupil impact aid	205,905	165,537
Other	2,593	5,921
Nonoperating Revenues		
Federal grants	227,050	267,033
State grants	6,900	7,821
Total revenue	1,358,417	1,086,564
Operating Expenses		
Salaries	513,017	439,194
Fringe benefits	172,532	139,791
Purchased services	603,004	546,817
Materials and supplies	50,545	28,775
Depreciation (unallocated)	18,798	18,798
Other expenses	3,065	2,348
Nonoperating Expenses		
Taxes	324	12,153
Interest	4,022	3,962
Total expenses	1,365,307	1,191,838
Decrease in Net Assets	**$ (6,890)**	**$ (105,274)**

Net assets decreased $6,890. There was an increase in revenue of $271,853 and an increase in expenses of $173,469 from 2006. Of the increase in revenues, the foundation payments increased by $275,717. Community schools receive no support from tax revenues. The expense for salaries and benefits increased $106,564. Purchased services increased $56,187. Materials and supplies expense increased $21,770 from 2006.

Capital Assets

At the end of fiscal year 2007, the Academy had $21,323 invested in furniture, fixtures, and equipment (net of depreciation), which represents a decrease of $18,798 from 2006. Table 3 shows capital assets (net of depreciation) for fiscal years 2007 and 2006:

TABLE 3

	2007	2006
Furniture, fixtures, and equipment	**$ 21,323**	**$ 40,121**

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

Current Financial Issues

Eagle Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2006-2007 school year, there were 155 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2007 amounted to $1,121,874.

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 Eagle Academy, at 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or by email at don.ash@leonagroup.com.

Eagle Academy
Lucas County

Statement of Net Assets (Deficit)
June 30, 2007

Assets	
Current assets:	
Cash (Note 3)	$ 109,453
Intergovernmental receivable (Note 4)	14,710
Prepaid expenses	10,000
Total current assets	134,163
Noncurrent assets - Depreciable capital assets - Net (Note 5)	21,323
Total assets	155,486
Liabilities	
Current liabilities:	
Accounts payable	45,535
Contracts payable (Note 14)	130,920
Deferred revenue	149
Total current liabilities	176,604
Noncurrent liabilities - Accrued rent (Note 12)	20,000
Total liabilities	196,604
Net Assets (Deficit)	
Invested in capital assets - Net of related debt	21,323
Unrestricted	(62,441)
Total net assets (deficit)	**$ (41,118)**

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

Eagle Academy
Lucas County

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)
Year Ended June 30, 2007

Operating Revenues	
Foundation payments	$ 915,969
Disadvantaged pupil impact aid	205,905
Charges for services	2,439
Other revenues	154
Total operating revenues	1,124,467
Operating Expenses	
Salaries	513,017
Fringe benefits	172,532
Purchased services (Note 11)	603,004
Materials and supplies	50,545
Depreciation	18,798
Other	3,065
Total operating expenses	1,360,961
Operating Loss	(236,494)
Nonoperating Revenues (Expenses)	
Federal grants	227,050
State grants	6,900
Federal and state taxes	(324)
Interest	(4,022)
Total nonoperating revenues	229,604
Change in Net Assets (Deficit)	(6,890)
Net Assets (Deficit) - Beginning of year	(34,228)
Net Assets (Deficit) - End of year	**$ (41,118)**

Statement of Cash Flows
Year Ended June 30, 2007

Cash Flows from Operating Activities	
Received from foundation payments	$ 915,969
Received from Disadvantaged Pupil Impact Aid	205,905
Received from other operating revenues	2,593
Payments to suppliers for goods and services	(726,560)
Payments to employees for services	(506,349)
Payments for employee benefits	(164,646)
Net cash used in operating activities	(273,088)
Cash Flows from Noncapital Financing Activities	
Payments on notes payable	(15,909)
Interest payments and fiscal charges	(4,022)
Federal grants received	240,317
State grants received	6,900
Federal and state taxes	(324)
Net cash provided by noncapital financing activities	226,962
Net Decrease in Cash	(46,126)
Cash - Beginning of year	155,579
Cash - End of year	**$ 109,453**

Statement of Cash Flows (Continued)
Year Ended June 30, 2007

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (236,494)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	18,798
Changes in assets and liabilities:	
Decrease in intergovernmental receivable	7,886
Decrease in prepaid expenses	9,325
Decrease in accounts payable	(5,803)
Decrease in contracts payable	(66,800)
Total adjustments	(36,594)
Net cash used in operating activities	**$ (273,088)**

Note 1 - Description of the School and Reporting Entity

Eagle 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 fifth. The Academy's mission is to provide an atmosphere where students will develop a thirst for learning, creative expression, and awareness of new horizons. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, personal integrity and responsibility, and a willingness to exercise leadership in their educational and social interactions. Staff, students, and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. 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 August 20, 2001, 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, 2006. The contract has since been extended for a period of five years through June 30, 2012. 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, 2007 was approximately $34,000.

The Academy operates under the direction of a five-member board of directors, which is also the governing board for one other The Leona Group, LLC-managed school (see Note 13). 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 certificated full-time teaching personnel who provide services to 155 students.

The governing board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of the Academy. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel, and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee (see Note 14).

Note 2 - Summary of Significant Accounting Policies

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

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

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

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

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets (deficit). The statement of revenue, expenses, and changes in net assets (deficit) 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 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.

Intergovernmental Receivables - Receivables at June 30, 2007 consisted of intergovernmental 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, 2007 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 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 leasehold improvements, 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.

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:

Furniture, fixtures, and equipment	3-7 years

Note 2 - Summary of Significant Accounting Policies (Continued)

Net Assets - Net assets represent the difference between assets and liabilities. 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 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.

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 2006 and has filed for an extension for fiscal year 2007. Amounts owed to the IRS and State of Ohio at June 30, 2007 are reported on the statement of net assets (deficit) as taxes payable, if significant.

Note 3 - Deposits

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

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

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 risk are used for the Academy's deposits. At year end, the Academy's deposit balance of $143,301 had $41,043 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 the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Receivables

The principal item of intergovernmental receivables at June 30, 2007 was $14,710 related to Title I.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Balance June 30, 2007
Business-type activity - Capital assets being depreciated - Furniture, fixtures, and equipment	$ 86,811	$ -	$ 86,811
Less accumulated depreciation	46,690	18,798	65,488
Total capital assets being depreciated - Net	$ 40,121	$ (18,798)	$ 21,323

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 2007, the Academy contracted with Employers Mutual Casualty Company for general liability, property insurance, and educational errors and omissions insurance. Settled claims relating to the 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	$ 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

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 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853, or by visiting the SERS Ohio website at www.ohsers.org.

Note 8 - Defined Benefit Pension Plans (Continued)

Plan members are required to contribute 10 percent of their annual covered salaries and the Academy is required to contribute at an actuarially determined rate. The current 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 healthcare benefits; for fiscal year 2007, 10.68 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's retirement board. The Academy's required contributions for pension obligations to SERS for the years ended June 30, 2007, 2006, and 2005 were $8,803, $9,315, and $7,974, respectively, equal to the required contributions for each year, of which 91 percent has been contributed for the fiscal year ended June 30, 2007 and 100 percent has been contributed for each of the fiscal years ended June 30, 2006 and 2005.

State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained 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.

New members have a choice of three retirement plans: a defined benefit (DB) plan, a defined contribution (DC) plan, and a combined plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance base on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 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 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 a defined benefit payment at a reduced level from the regular DB plan. 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. Existing members with less than five years of service credit as June 30, 2001 were given the

Note 8 - Defined Benefit Pension Plans (Continued)

option of making a one-time irrevocable decision to transfer their account balances from the existing DB plan into the DC plan or the combined plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, 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. For the fiscal year 2006, the portion used to fund pension obligations was also 13 percent. 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 for the fiscal years ended June 30, 2007, 2006, and 2005 were $51,089, $45,813, and $81,281, respectively, equal to the required contributions for each year, of which 26 percent has been contributed for the fiscal year ended June 30, 2007 and 100 percent has been contributed for each of the fiscal years ended June 30, 2006 and 2005. Contributions to the DC and combined plans for the fiscal year 2007 were $54,336 made by the Academy and $39,341 made by the plan members.

Note 9 - Postemployment Benefits

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

Note 9 - Postemployment Benefits (Continued)

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for healthcare coverage. The STRS Ohio Board has statutory authority over how much, if any, of the healthcare cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $3,930 for fiscal year 2007.

STRS Ohio pays healthcare benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the fund was $3.5 billion. For the year ended June 30, 2006, net healthcare costs paid by STRS were $282 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their healthcare premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing healthcare benefits. For the fiscal year ended June 30, 2007, employer contributions to fund healthcare benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for the fiscal year 2006. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2007, the minimum pay has been established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Academy, the amount contributed to fund healthcare benefits, including the surcharge, during the 2007 fiscal year, equaled $2,736.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the healthcare fund. The target level for the healthcare reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for healthcare at June 30, 2006 (the latest information available), were $158 million. At June 30, 2006, SERS had net assets available for payment of healthcare benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

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. 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, 2007.

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. For fiscal year 2007, the results of this review are not concluded. However, in the opinion of management, any changes to enrollment data will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

Note 11 - Purchased Service Expense

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	$ 2,679
Legal	955
Insurance	19,516
Advertising	17,141
Dues and fees	22,867
Ohio Council of Community Schools	33,656
The Leona Group, LLC (Note 14)	163,010
Cleaning services	22,946
Utility	61,668
Other professional services	131,548
Other rentals and leases	7,018
Building lease agreements (Note 12)	120,000
Total purchased services	$ 603,004

Note 12 - Operating Leases

The Academy entered into a lease agreement with Toledo St. Stephen Parish for a school facility with minimum required rental payments of $10,000 per month over the period from July 1, 2005 through June 30, 2010, with a renewal option. Payment of the minimum monthly rent installments for the months of July and August 2005 has been deferred until June 1, 2010. Additional required rent payments are detailed in the lease agreement. Payments made under the lease agreement totaled $120,000.

The following is a schedule of the future minimum payments required under the facility operating lease as of June 30, 2007:

Fiscal Years Ending June 30		Amount
2008		$ 120,000
2009		120,000
2010		140,000
	Total minimum lease payments	$ 380,000

Note 13 - Related Parties

Through February 2007, the Academy's governing board consisted of the same members as the governing boards for Paul Laurence Dunbar Academy, Toledo Preparatory Academy, George A. Phillips Academy, Lake Erie Academy, and Wildwood Environmental Academy. Beginning in March 2007, the Academy's board consists of the same members as the governing board for Toledo Preparatory Academy.

Note 14 - Management Agreement

The Academy entered into a five-year contract, effective August 21, 2001 through August 20, 2006, with annual renewal options, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. The Academy has since extended the contract for a period of five years through June 30, 2012. 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 $163,010 for the year ended June 30, 2007. At June 30, 2007, contracts payable include approximately $64,000 for the payment of management fees and approximately $65,000 for reimbursement of subcontracted employees and other operating costs.

Note 14 - Management Agreement (Continued)

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
- 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.

Direct expenses:		
Salaries	$	513,017
Fringe benefits		172,532
Professional and technical services		45,263
Other direct costs		15,135
Indirect expenses - Overhead		-
Total expenses	$	745,947

Note 15 - Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Academy as a going concern. The Academy has a net deficit of $41,118. During the year ending June 30, 2008, the Academy plans to increase enrollment and revenue through aggressive marketing campaigns and better control of costs. Management believes such measures will enable the Academy to build a fund balance and pay its deferred management fees.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net assets (deficit) is dependent upon continued operations of the Academy, which in turn is dependent upon the Academy's ability to meet its financing requirements, and the success of future operations. Management believes that actions presently being taken to revise the Academy's operations provide the opportunity for the Academy to continue as a going concern.

EAGLE 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
DECEMBER 27, 2007

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