Lake Erie Academy
Lucas County

Financial Report
June 30, 2007

Mary Taylor, CPA
Auditor of State

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 10, 2007

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Independent Auditor's Report

To the Board of Directors
Lake Erie Academy

We have audited the accompanying basic financial statements of Lake Erie Academy as of and for the year ended June 30, 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 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, 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. 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 an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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
Lake Erie Academy

We have audited the basic financial statements of Lake Erie 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 Lake Erie 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 Lake Erie Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lake Erie 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.

To the Board of Directors
Lake Erie Academy

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. However, we believe the following significant deficiencies are material weaknesses:

- In accordance with accounting principles generally accepted in the United States of America, a prepaid expense should be recorded when a payment is made prior to an expense being incurred, and accounts payable should be recorded when an expense is incurred prior to payment being rendered. Prior to the audit of the financial statements, the Academy's records contained a prepaid expense and an accounts payable for rent expense which had not been incurred nor paid, resulting in an audit adjustment of $30,000. In order to prevent and detect such misstatements from occurring in the future, we recommend that the accounting personnel review the detail of prepaid expenses and accounts payable for possible overstatements of each.

- Accounting principles generally accepted in the United States of America require that the useful lives of assets held under lease agreements, for which ownership of the asset does not transfer to the lessee at the end of the lease and the lessee does not have a bargain-purchase-option, do not exceed the terms of the lease agreements. The fixed asset records contained useful lives that exceeded the term of the Academy's lease agreement, resulting in an audit adjustment of $56,595. In order to prevent and detect such misstatements from occurring in the future, we recommend that the accounting personnel review the terms of all significant agreements entered into by the Academy to ensure the useful lives of assets are properly reflected in the accounting records.

- The Academy has a capital asset policy which states that capital assets with a value over $1,000 and a useful life of greater than one year should be capitalized. The Academy purchased and expensed a new boiler during the fiscal year ended June 30, 2007, resulting in an audit adjustment of approximately $35,000 to capitalize the boiler. In order to prevent and detect such misstatements from occurring, we recommend that the accounting personnel review the details of all repairs and maintenance accounts to ensure that all capital assets have been properly recorded.

To the Board of Directors
Lake Erie Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Erie Academy's financial statements are free 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 instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Ohio Revised Code Section 3314.03A states that community schools established prior to April 8, 2003 must be nonprofit corporations under ORC 1702. The community school 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 Lake Erie 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 Lake Erie 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 $151,815, which represents a 47 percent decrease from 2006. This was due primarily to a decrease in revenue without a corresponding decrease in operating expenses.

- Total assets decreased $443,756, which represents a 61 percent decrease from 2006. This was due primarily to a decrease in overall cash levels and depreciation of capital assets.

- Liabilities decreased $291,941, which represents a 71 percent decrease from 2006. This decrease was due to a significant decrease in contracts 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, 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 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 years 2007 and 2006:

TABLE 1	June 30	
	2007	2006
Assets		
Current assets	$ 76,259	$ 410,649
Capital assets - Net	211,330	320,696
Total assets	287,589	731,345
Liabilities - Current liabilities	119,830	411,771
Net Assets		
Invested in capital assets	211,330	320,696
Unrestricted	(43,571)	(1,122)
Total net assets	**$ 167,759**	**$ 319,574**

Total assets decreased $443,756. This was due primarily to a decrease in cash, intergovernmental receivables, and capital assets. Cash decreased by $279,652 from 2006 to 2007. Intergovernmental receivables decreased by $30,156. This decrease was due to the timing of the receipt of funding. Capital assets, net of depreciation, decreased by $109,366, due primarily to the depreciation of leasehold improvements, library books, furniture, fixtures, and equipment.

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

TABLE 2	Year Ended June 30	
	2007	2006
Operating Revenues		
Foundation payments	$ 1,265,811	$ 1,835,903
Disadvantaged Pupil Impact Aid	156,905	293,093
Other	2,972	6,101
Nonoperating Revenues		
Federal grants	331,874	456,033
State grants	11,627	13,621
Total revenues	1,769,189	2,604,751
Operating Expenses		
Salaries	658,782	863,829
Fringe benefits	211,515	255,172
Purchased services	787,754	1,229,949
Property taxes	4,359	67,890
Materials and supplies	15,997	31,861
Depreciation (unallocated)	160,936	103,558
Other expenses	3,911	4,731
Nonoperating Expenses - Federal and state taxes	77,750	90,867
Total expenses	1,921,004	2,647,857
Decrease in Net Assets	**$ (151,815)**	**$ (43,106)**

Net assets decreased $151,815 from the prior year. This was due primarily to a decrease in revenue without a corresponding decrease in operating expenses. There was a decrease in revenues of $835,562 and a decrease in expenses of $726,853 from 2006 to 2007. Of the decrease in revenues, the foundation payments decreased by $570,092 and the Disadvantaged Pupil Impact Aid decreased by $136,188. Community schools receive no support from tax revenues.

The expense for salaries decreased by $205,047 and the expense for fringe benefits decreased by $43,657 from 2006 to 2007. This was due primarily to a decrease in staff during fiscal year 2006. Purchased services decreased by $442,195 from 2006 to 2007 due primarily to the lack of management fees in 2006. Materials and supplies expense decreased by $15,864 from 2006 to 2007, and depreciation expense increased by $57,378 from 2006 to 2007.

Capital Assets

At the end of fiscal year 2007, the Academy had $211,330 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represents a decrease of $109,366 from 2006 to 2007. Table 3 shows the capital assets (net of depreciation) for fiscal years 2007 and 2006:

TABLE 3	2007	2006
Leasehold improvements	$ 131,319	$ 212,791
Library books	16,690	21,688
Furniture, fixtures, and equipment	63,321	86,217
Total capital assets	**$ 211,330**	**$ 320,696**

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

Current Financial Issues

Lake Erie Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2006-2007 school year, there were 203 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2006 amounted to $1,422,716.

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, at 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or by e-mail at don.ash@leonagroup.com.

Statement of Net Assets
June 30, 2007

Assets	
Current assets:	
Cash (Note 3)	$ 24,418
Intergovernmental receivables (Note 4)	38,028
Prepaid expenses	13,813
Total current assets	76,259
Noncurrent assets - Depreciable capital assets - Net (Note 5)	211,330
Total assets	287,589
Liabilities - Current	
Accounts payable	12,801
Contracts payable (Note 13)	107,029
Total liabilities	119,830
Net Assets	
Invested in capital assets - Net of related debt	211,330
Unrestricted	(43,571)
Total net assets	**$ 167,759**

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

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

Operating Revenues	
Foundation payments	$ 1,265,811
Disadvantaged Pupil Impact Aid	156,905
Other revenues	2,972
Total operating revenues	1,425,688
Operating Expenses	
Salaries	658,782
Fringe benefits	211,515
Purchased services (Note 10)	787,754
Property taxes	4,359
Materials and supplies	15,997
Depreciation (Note 5)	160,936
Other	3,911
Total operating expenses	1,843,254
Operating Loss	(417,566)
Nonoperating Revenues (Expense)	
Federal grants	331,874
State grants	11,627
Federal and state taxes	(77,750)
Total nonoperating revenues	265,751
Change in Net Assets	(151,815)
Net Assets - Beginning of year	319,574
Net Assets - End of year	**$ 167,759**

Statement of Cash Flows
Year Ended June 30, 2007

Cash Flows from Operating Activities	
Received from foundation payments	$ 1,265,811
Received from Disadvantaged Pupil Impact Aid	156,905
Received from other operating revenues	(641)
Payments to suppliers for goods and services	(1,046,524)
Payments to employees for services	(699,843)
Payments for employee benefits	(211,515)
Net cash used in operating activities	(535,807)
Cash Flows from Noncapital Financing Activities	
Federal grants received	373,848
State grants received	11,627
Federal and state taxes	(77,750)
Net cash provided by noncapital financing activities	307,725
Cash Flows from Capital and Related Financing Activities -	
Payments for capital acquisitions	(51,570)
Net Decrease in Cash	(279,652)
Cash - Beginning of year	304,070
Cash - End of year	**$ 24,418**

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

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

Reconciliation of operating loss to net cash from operating activities:		
Operating loss	$	(417,566)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation		160,936
Changes in assets and liabilities:		
Increase in intergovernmental receivables		(3,613)
Decrease in prepaid expenses		16,377
Decrease in accrued wages		(41,061)
Decrease in accounts payable		(11,495)
Decrease in contracts payable		(239,385)
Total adjustments		(118,241)
Net cash used in operating activities	**$**	**(535,807)**

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

Note 1 - Description of the School and Reporting Entity

Lake Erie Academy, Lucas County (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through eighth. The Academy's mission is to provide an educational community that promotes educational achievement, involvement of parents, and positive social interactions. The Academy is committed to developing excellence on the part of students, teachers, and administrative staff. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

On July 1, 2002, the Academy was approved for operation under a contract with the Ohio Council of Community Schools (the "Sponsor") for a period of five years through June 30, 2007. The contract has since been extended for a period of seven years through June 30, 2014. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The total Sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2007 was approximately $43,000.

The Academy operates under the direction of a five-member board of directors, which is also the governing board for another The Leona Group, LLC-managed school (see Note 12). The board of directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The board of directors controls the Academy's instructional/support facility staffed by 11 certificated full-time teaching personnel who provide services to 203 students.

The governing board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of the Academy. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel, and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee (see Note 13).

Note 2 - Summary of Significant Accounting Policies

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

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

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

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

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

Expenses are recognized at the time they are incurred.

Budgetary Process - Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and 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 the services are consumed.

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $1,000 for furniture and equipment, land, and leasehold improvements or any one item costing under $1,000 alone but purchased in a group for over $2,500. Software costing more then $10,000 per application will also be capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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

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

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Tax Status - The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 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 as taxes payable, if significant.

Note 3 - Deposits

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of $37,272 had no bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Receivables

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

Title I	$ 12,672
Title II-A	200
Title IV	1,762
Federal Child Nutrition	11,814
Special Education	7,967
Other	3,613
Total intergovernmental receivables	$ 38,028

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:			
Leasehold improvements	$ 353,410	$ 40,063	$ 393,473
Library books	30,000	-	30,000
Furniture, fixtures, and equipment	156,620	11,507	168,127
Total capital assets being depreciated	540,030	51,570	591,600
Less accumulated depreciation:			
Leasehold improvements	140,619	121,535	262,154
Library books	8,312	4,998	13,310
Furniture, fixtures, and equipment	70,403	34,403	104,806
Total accumulated depreciation	219,334	160,936	380,270
Total capital assets being depreciated - Net	$ 320,696	$ (109,366)	$ 211,330

Note 6 - Risk Management

Property and Liability - The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Academy contracted with Lexington Insurance Company for general liability, property insurance, and educational errors and omissions insurance. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. Coverages are as follows:

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

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

Note 7 - Defined Benefit Pension Plans

School Employees' Retirement System

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 7 - 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 $12,684, $16,095, and $29,673, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for each of the fiscal years ended June 30, 2007, 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 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.

Note 7 - Defined Benefit Pension Plans (Continued)

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 $71,455, $89,345, and $76,803, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for each of the fiscal years ended June 30, 2007, 2006, and 2005. Contributions to the DC and combined plans for the fiscal year 2007 were $77,623 made by the Academy and $55,445 made by the plan members.

Note 8 - 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 noncertificated 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 8 - 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 healthcare 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 $5,497 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 $282,743,000 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 the 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, pro-rated 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 $3,943.

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 health care at June 30, 2006 (the latest information available) were $158,751,207. 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 9 - Contingencies

Grants - The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

State Funding - The Ohio Department of Education reviews enrollment data and full-time equivalency (FTE) calculations made by schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 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.

Property Taxes - The Academy has applied for an exemption from general property taxes. As of June 30, 2007, the exemption has not been granted; yet management believes that the exemption will be granted. Therefore, the Academy has not paid its general property taxes for the fiscal years 2006 and 2007, which total approximately $487,000.

Note 10 - 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	$ 31,152
Legal	3,477
Insurance	6,239
Advertising	9,188
Dues and fees	4,662
Ohio Council of Community Schools	42,681
Cleaning services	4,047
Utility	91,503
Other professional services	160,695
Rent (Note 11)	434,110
Total purchased services	$ 787,754

Note 11 - Operating Leases

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

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

Fiscal Years Ending June 30		Amount
2008		$ 422,500
2009		422,500
	Total minimum lease payments	$ 845,000

Note 12 - Related Parties

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

The Academy rents its building from Lake Erie Villa, LLC, an affiliate of The Leona Group, LLC's owner. The Academy paid Lake Erie Villa, LLC $422,500 during fiscal year 2007.

Note 13 - Management Agreement

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007, with options for annual renewal with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. The management agreement was renewed affective July 13, 2007 for a period of seven years to continue through June 30, 2014. In exchange for its services, The Leona Group, LLC receives a capitation fee of the difference between total audited revenues less total expenditures, which is adjusted further for capital asset activity. The Academy incurred no management fees for the year ended June 30, 2007. At June 30, 2007, contracts payable include $43,106 for the payment of prior management fees and $63,923 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require The Leona Group, LLC to provide the following:

- Implementation and administration of the educational program
- Management of all personnel functions, including professional development
- Operation of the school building and the installation of technology integral to school design
- All aspects of the business administration of the Academy
- The provision of food service for the Academy
- Any other function necessary or expedient for the administration of the Academy

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

The Leona Group, LLC may terminate this agreement with cause prior to the end of the specified term in the 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.

Note 13 - Management Agreement (Continued)

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

For the year ended June 30, 2007, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	$ 658,782
Fringe benefits	211,515
Professional and technical services	44,401
Other direct costs	34,252
Total expenses	$ 948,950

Mary Taylor, CPA
Auditor of State

LAKE ERIE ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 20, 2007

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