

**Eagle Academy
Lucas County**

**Financial Report
June 30, 2008**



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, 2007 through June 30, 2008. 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

April 6, 2009

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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, 2008, 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, 2008 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 14, 2008 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 14, 2008

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, 2008 and have issued our report thereon dated November 14, 2008. 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.

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.

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 or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, as defined above

To the Board of Directors
Eagle Academy

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 certain immaterial instances of noncompliance and other matters that we have reported to the management of Eagle Academy in a separate letter dated November 14, 2008.

Eagle Academy's response to the finding relating to compliance and other matters identified in our audit and described above has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 14, 2008

Eagle Academy

Management's Discussion and Analysis

The management's discussion and analysis of Eagle Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. 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 (deficit) increased \$8,494, which represents a 21 percent decrease in the deficiency in net assets from 2007.
- Total assets increased \$6,427, which represents a 4 percent increase from 2007. This was due primarily to a decrease in cash and an increase in intergovernmental receivables.
- Liabilities decreased \$2,067, which represents a 1 percent decrease from 2007. This decrease was due to the decrease in contracts payable and an increase in 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 2008?" 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.

Eagle Academy

Management's Discussion and Analysis (Continued)

Table I provides a summary of the Academy's net assets for fiscal years 2008 and 2007:

TABLE I	Governmental Activities	
	June 30	
	2008	2007
Assets		
Current assets	\$ 139,123	\$ 134,163
Capital assets - Net	<u>22,790</u>	<u>21,323</u>
Total assets	161,913	155,486
Liabilities		
Current liabilities	174,537	176,604
Noncurrent liabilities	<u>20,000</u>	<u>20,000</u>
Total liabilities	<u>194,537</u>	<u>196,604</u>
Net Assets (Deficit)		
Invested in capital assets	22,790	21,323
Unrestricted	<u>(55,414)</u>	<u>(62,441)</u>
Total net assets (deficit)	<u>\$ (32,624)</u>	<u>\$ (41,118)</u>

Total assets increased \$6,427. This was due primarily to a decrease in cash and an increase in intergovernmental receivables. Cash decreased by \$44,576. Intergovernmental receivables increased by \$49,375 from 2007. This increase was due to the timing of the receipt of some grant funding. Capital assets, net of depreciation, increased by \$1,467.

Eagle Academy

Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets (deficit) for fiscal years 2008 and 2007, as well as a listing of revenues and expenses.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2008	2007
Operating Revenues		
Foundation payments	\$ 871,933	\$ 915,969
Poverty Based Assistance	166,635	205,905
Other	4,140	2,593
Nonoperating Revenues		
Federal grants	377,608	227,050
State grants	8,521	6,900
Total revenue	1,428,837	1,358,417
Operating Expenses		
Salaries	495,525	513,017
Fringe benefits	212,369	172,532
Purchased services	631,802	603,004
Materials and supplies	68,727	50,545
Depreciation (unallocated)	11,369	18,798
Other expenses	4,123	3,065
Nonoperating (Revenue) Expenses		
Taxes	(3,572)	324
Interest	-	4,022
Total expenses	1,420,343	1,365,307
Increase (Decrease) in Net Assets (Deficit)	\$ 8,494	\$ (6,890)

Net assets (deficit) increased \$8,494. There was an increase in revenue of \$70,420 and an increase in expenses of \$55,036 from 2007. Of the increase in revenues, the federal grants increased by \$150,558. Community schools receive no support from tax revenues. The expense for salaries and benefits increased \$22,345. Purchased services increased \$28,798. Materials and supplies expense increased \$18,182 from 2007.

Eagle Academy

Management's Discussion and Analysis (Continued)

Capital Assets

At the end of fiscal year 2008, the Academy had \$22,790 invested in furniture, fixtures, and equipment (net of depreciation), which represents an increase of \$1,467 from 2007. Table 3 shows capital assets (net of depreciation) for fiscal years 2008 and 2007:

TABLE 3

	<u>2008</u>	<u>2007</u>
Furniture, fixtures, and equipment	<u>\$ 22,790</u>	<u>\$ 21,323</u>

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 2007-2008 school year, there were 140 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments (including Poverty Based Assistance) for fiscal year 2008 amounted to \$1,038,568.

Contacting the Academy'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

Statement of Net Assets (Deficit) June 30, 2008

Assets

Current assets:

Cash (Note 3)	\$ 64,877
Intergovernmental receivable (Note 4)	64,085
Prepaid expenses	<u>10,161</u>

Total current assets 139,123

Noncurrent assets - Depreciable capital assets - Net (Note 5) 22,790

Total assets 161,913

Liabilities

Current liabilities:

Accounts payable	69,654
Contracts payable (Note 12)	104,778
Deferred revenue	<u>105</u>

Total current liabilities 174,537

Noncurrent liabilities - Accrued rent (Note 11) 20,000

Total liabilities 194,537

Net Assets (Deficit)

Invested in capital assets	22,790
Unrestricted	<u>(55,414)</u>

Total net assets (deficit) \$ (32,624)

Eagle Academy

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2008

Operating Revenues	
Foundation payments	\$ 871,933
Poverty Based Assistance	166,635
Charges for services	3,081
Other revenues	<u>1,059</u>
Total operating revenues	1,042,708
Operating Expenses	
Salaries	495,525
Fringe benefits	212,369
Purchased services (Note 10)	631,802
Materials and supplies	68,727
Depreciation	11,369
Other	<u>4,123</u>
Total operating expenses	<u>1,423,915</u>
Operating Loss	(381,207)
Nonoperating Revenues	
Federal grants	377,608
State grants	8,521
Federal and state tax refund	<u>3,572</u>
Total nonoperating revenues	<u>389,701</u>
Change in Net Assets (Deficit)	8,494
Net Assets (Deficit) - Beginning of year	<u>(41,118)</u>
Net Assets (Deficit) - End of year	<u><u>\$ (32,624)</u></u>

Eagle Academy

Statement of Cash Flows Year Ended June 30, 2008

Cash Flows from Operating Activities

Received from foundation payments	\$ 871,933
Received from Poverty Based Assistance	166,635
Received from other operating revenues	4,140
Payments to suppliers for goods and services	(697,298)
Payments to employees for services	(505,063)
Payments for employee benefits	<u>(212,413)</u>

Net cash used in operating activities (372,066)

Cash Flows from Noncapital Financing Activities

Federal grants received	328,233
State grants received	8,521
Federal and state tax refund	<u>3,572</u>

Net cash provided by noncapital financing activities 340,326

Cash Flows from Investing Activities - Purchase of property and equipment

(12,836)

Net Decrease in Cash (44,576)

Cash - Beginning of year 109,453

Cash - End of year \$ 64,877

Eagle Academy

Statement of Cash Flows (Continued) Year Ended June 30, 2008

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (381,207)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	11,369
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(44)
Increase in prepaid expenses	(161)
Increase in accounts payable	24,119
Decrease in contracts payable	<u>(26,142)</u>
 Total adjustments	 <u>9,141</u>
 Net cash used in operating activities	 <u><u>\$ (372,066)</u></u>

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, 2008 were approximately \$31,000.

The Academy operates under the direction of a four-member board of directors, which is also the governing board for one other The Leona Group, LLC-managed school. The board of directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The board of directors controls the Academy's instructional/support facility staffed by 10 certified full-time teaching personnel who provide services to 140 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 12).

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, 2008 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, 2008 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 the life of the asset are charged to expense when incurred.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Furniture, fixtures, and equipment	3-7 years
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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 Poverty Based Assistance (PBA) 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 2007 and has filed for an extension for fiscal year 2008. Amounts owed to the IRS and State of Ohio at June 30, 2008 are reported on the statement of net assets (deficit) as taxes payable, if significant.

Note 3 - Deposits

The Academy has designated one bank for the deposit of its funds.

The Academy's deposits consist solely of a checking account 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 \$79,374 had no bank deposits (checking and savings accounts) that were uninsured or 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	\$	15,756
Title II-A		609
Mentor Grant		5,731
Library Grant		26,748
Federal Child Nutrition		8,992
Special Education, Part B		<u>6,249</u>
Total intergovernmental receivables	\$	<u><u>64,085</u></u>

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008 is as follows:

	Balance <u>June 30, 2007</u>	Additions	Balance <u>June 30, 2008</u>
Business-type activity - Capital assets being depreciated - Furniture, fixtures, and equipment	\$ 86,811	\$ 12,836	\$ 99,647
Less accumulated depreciation	<u>65,488</u>	<u>11,369</u>	<u>76,857</u>
Total capital assets being depreciated - Net	<u>\$ 21,323</u>	<u>\$ 1,467</u>	<u>\$ 22,790</u>

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 2008, 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 7 - Defined Benefit Pension Plans

School Employee Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 Street, Suite 100, Columbus, Ohio 43215-3746.

Note 7 - Defined Benefit Pension Plans (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund healthcare benefits; for fiscal year 2008, 9.16 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 by the SERS' retirement board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$11,148, \$8,803, and \$9,315 respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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 based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor.

Note 7 - Defined Benefit Pension Plans (Continued)

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2008, 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 fiscal year 2007, 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 Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$53,541, \$51,089, and \$45,813, respectively; 36 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$56,459 made by the Academy and \$40,328 made by the plan members.

Note 8 - Postemployment Benefits

School Employee Retirement System

The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, the healthcare plan and a Medicare Part B plan. The healthcare plan includes hospitalization and physicians' fees through several types of plans including HMOs, PPOs, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the system based on authority granted by state statute. The financial reports of both plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

State statute permits SERS to fund the healthcare benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the retirement board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$5,087.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,087, \$2,660, and \$1,709, respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$803, \$76, and \$73, respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 8 - Postemployment Benefits (Continued)

State Teachers Retirement System

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

Ohio law authorizes STRS Ohio to offer the plan and gives the retirement board authority over how much, if any, of the healthcare costs will be absorbed by STRS Ohio. Active employee members do not contribute to the plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$4,119, \$3,930, and \$3,524, respectively; 36 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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, 2008.

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 2008, 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, 2008.

Note 10 - Purchased Service Expenses

For the year ended June 30, 2008, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	\$ 813
Legal	8,108
Insurance	13,974
Advertising	16,133
Dues and fees	15,102
Ohio Council of Community Schools	31,157
The Leona Group, LLC (Note 12)	180,035
Cleaning services	19,808
Utility	58,831
Other professional services	160,445
Other rentals and leases	7,396
Building lease agreements (Note 11)	<u>120,000</u>
Total purchased services	<u>\$ 631,802</u>

Note 11 - 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 for the fiscal year ended June 30, 2008.

The following is a schedule of the future minimum payments required under the facility operating lease as of June 30, 2008:

<u>Fiscal Years Ending June 30</u>	<u>Amount</u>
2009	\$ 120,000
2010	<u>140,000</u>
Total minimum lease payments	<u>\$ 260,000</u>

Note 12 - 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 \$180,035 for the year ended June 30, 2008. At June 30, 2008, contracts payable include approximately \$30,000 for the payment of management fees and approximately \$75,000 for reimbursement of subcontracted employees and other operating costs.

Terms of the contracts require TLG to provide the following:

- Implementation and administration of the educational program
- Management of all personnel functions, including professional development
- Operation of the school building and the installation of technology integral to school design
- All aspects of the business administration of the Academy
- The provision of food service for the Academy
- 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 12 - 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, 2008, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	\$ 495,525
Fringe benefits	212,369
Professional and technical services	68,085
Other direct costs	<u>7,994</u>
Total expenses	<u>\$ 783,973</u>



Mary Taylor, CPA
Auditor of State

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
APRIL 16, 2009