



**Auditor of State
Betty Montgomery**

**LAKE ERIE ACADEMY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lake Erie Academy
Lucas County
2740 West Central Avenue
Toledo, Ohio 43606-3452

To the Governing Board:

We have audited the Balance Sheet of Lake Erie Academy, Lucas County, (the Academy) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these 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.

The Academy has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to Federal, State and Local income taxes. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

Because of the departure referred to in the preceding paragraph, net income and retained earnings are overstated and liabilities for accrued income taxes is understated by amounts which, while material, we were unable to determine.

In our opinion, because of the effects of the matters discussed in the previous two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Academy, as of June 30, 2003, or the results of operations and its cash flows for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2004 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 13, 2004

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets

Current Assets

Cash	\$ 63,486
Accounts Receivable	2,292
Loan Receivable	<u>37,700</u>

Total Current Assets 103,478

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>2,039</u>
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Total Assets \$ 105,517

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$ 13,486
Contracts Payable	24,180
Intergovernmental Payable	<u>29,921</u>

Total Current Liabilities 67,587

Fund Equity

Retained Earnings	<u>37,930</u>
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Total Liabilities and Fund Equity \$ 105,517

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues

Foundation Payments	\$ 428,005
Disadvantaged Pupil Impact Aid	192,799
Food Services	1,699
Other Operating Revenues	<u>4,491</u>
Total Operating Revenues	<u>626,994</u>

Operating Expenses

Salaries	346,671
Fringe Benefits	105,676
Purchased Services	372,907
Materials and Supplies	24,975
Depreciation	360
Other Operating Expenses	<u>3,830</u>
Total Operating Expenses	<u>854,419</u>
Operating Loss	<u>(227,425)</u>

Non-Operating Revenues

Grants - Federal	262,059
Grants - State	<u>3,296</u>
Total Non-Operating Revenues	<u>265,355</u>
Net Income	37,930
Retained Earnings at Beginning of Year	<u>-</u>
Retained Earnings at End of Year	<u><u>\$ 37,930</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 646,693
Cash Received from Food Services	1,699
Cash Received from Other Operating Revenue	2,199
Cash Payments to Suppliers for Goods and Services	(383,994)
Cash Payments to Employees for Services	(327,408)
Cash Payments to Employee Benefits	<u>(100,959)</u>
Net Cash Used for Operating Activities	<u>(161,770)</u>
Cash Flows from Noncapital Financing Activities	
Grants - Federal	262,059
Grants - State	3,296
Short-Term Loans to Paul Laurence Dunbar Academy	<u>(37,700)</u>
Net Cash Provided by Noncapital Financing Activities	<u>227,655</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	<u>(2,399)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(2,399)</u>
Net Increase in Cash and Cash Equivalents	63,486
Cash and Cash Equivalents at the Beginning of the Year	<u>-</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 63,486</u></u>

(Continued)

**LAKE ERIE ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

**Reconciliation of Operating Loss to
Net Cash Used for Operating Activities**

Operating Loss	\$ (227,425)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	360
Changes in Assets/Liabilities:	
(Increase) in Accounts Receivable	(2,292)
Increase in Accounts Payable	13,486
Increase in Contract Payable	24,180
Increase in Intergovernmental Payable	<u>29,921</u>
Total Adjustments	<u>65,655</u>
Net Cash Used for Operating Activities	<u><u>\$ (161,770)</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Lake Erie Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. 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.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, formerly known as the University of Toledo Charter School Council (the Sponsor) for a period of five years commencing July 1, 2002. 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 Academy operates under the direction of a five member Governing Board whom also is the Governing Board for three other Leona Group schools (See Note 13). The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility staffed by three non-certified personnel and seven certificated teaching personnel who provide services to 105 students.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or

**LAKE ERIE ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis. The Academy follows a budget that is adopted and revised as needed.

**LAKE ERIE ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

D. Cash

All monies received by the Academy are accounted for by the Academy's management company, The Leona Group. All cash received by the Fiscal Officer is maintained in a bank account in the Academy's name or temporarily used to purchase short-term investments. For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The Academy does not possess any infrastructure.

Software costing more than \$10,000 per application, land and buildings costing more than \$1,000, furniture and equipment costing more than \$1,000 per item or any item costing under \$1,000 alone but purchased as a group for over \$2,500 will be capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

F. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility 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.

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

At June 30, 2003, the carrying amount of the Academy's deposits was \$63,486 and the bank balance was \$70,430. The bank balance was covered by federal depository insurance.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts, loans, and intergovernmental receivables. Accounts receivable are considered collectible in full. Intergovernmental receivables are considered collectible in full due to the current year guarantee of federal funds.

Loans Receivable at June 30, 2003, consisted of \$37,700 in short term loans provided to the Paul Laurence Dunbar Academy.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$ 2,399
Less: Accumulated Depreciation	<u>(360)</u>
Net Fixed Assets	<u><u>\$ 2,039</u></u>

**LAKE ERIE ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

6. RISK MANAGEMENT

A. 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. For the fiscal year ended June 30, 2003, the Academy contracted with EMC Insurance Companies for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and no deductible. Excess Liability coverage of \$8,000,000 single occurrence limit and \$8,000,000 aggregate limit and no deductible is also held.

Professional liability is protected by insurance coverage through EMC Insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and no deductible. Vehicle coverage is protected by EMC Insurance with a \$1,000,000 combined single limit of liability.

B. Workers' Compensation

The Academy pays the State Worker's 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.

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP 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 DCP 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, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contribution for pension obligations for the DBP for the fiscal year ended June 30, 2003 was \$35,750; 75 percent has been contributed for fiscal year 2003. Contributions for the CP for the fiscal year ended June 30, 2003, was \$2,800 made by plan members.

B. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2003, was \$5,270; 100 percent has been contributed for fiscal year 2003.

8. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation 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.

The State Teachers Retirement Board has the statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was \$2,750.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of their premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Academy, the amount used to fund health care benefits, including the surcharge, was \$3,761 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. STATE SCHOOL FUNDING DECISION

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

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

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

10. CONTINGENCIES

A. 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

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

become a liability of the funds. 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, 2003.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Academy is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review resulted in the state funding being adjusted. The Academy foundation payments were reduced by \$25,889 which has been recorded as an intergovernmental payable on the financial statements.

11. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and Maintenance	\$ 24,641
Legal	19,652
Insurance	15,093
Advertising	15,529
Employment Services	275
Ohio Council of Community Schools	22,182
The Leona Group, LLC (See Note 14)	109,604
Cleaning Services	800

(Continued)

**LAKE ERIE ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

Utility	21,199
Other Professional Services	41,685
Building Lease Agreements	61,375
Other Leases and Rentals	40,872
Total Purchased Services	\$ 372,907

12. OPERATING LEASES

The Academy has entered into a lease for the period September 1, 2002 through August 31, 2003 with Luttenberger and Company to lease third floor space for a school facility. Payments made totaled \$61,375 for the fiscal year. This Lease was not renewed and the Academy moved locations. The Academy is in the process of entering into a Lease Purchase agreement with Lake Erie Villa, LLC for the building which now houses the Academy (See Note 16).

The Academy entered into a lease with Ervin Leasing for a copier for the period September 30, 2002 through September 29, 2006. Payments made totaled \$4,110 for the fiscal year.

The Academy entered into a lease with Ervin Leasing for a fax machine for the period September 30, 2002 through September 29, 2005. Payments made totaled \$355 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2004.

	Copier Lease	Fax Machine Lease
Fiscal Year Ending June 30,		
2004	\$ 4,932	\$ 426
2005	4,932	426
2006	4,932	71
2007	822	
Total minimum lease payments	\$ 15,618	\$ 923

13. RELATED PARTIES

Three Board members of the Academy are employees of The Leona Group, LLC (TLG). The Academy contracts with TLG for the operation of its school, including program evaluation; human resources; staffing, supervision and performance review; fiscal services and

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

accounting; and compliance. As stated in Note 11 the Academy paid TLG \$109,604 during fiscal year 2003.

The Academy's Governing Board consists of the same members as the Governing Board for Eagle Academy, Paul Laurence Dunbar Academy, and Toledo Accelerated Academy.

During the audit period, the Academy loaned Paul Laurence Dunbar Academy \$37,700. This amount was repaid to the Academy on November 21, 2003.

14. MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12 percent of the per pupil expenditures and a Year-End fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The amount paid to TLG for fiscal year 2003 totaled \$109,604 and no amount was due at June 30, 2003. 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 should fail to remedy a material breach within a period reasonable under the circumstances, but not less than sixty (60) days after notice from the Academy.

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

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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

Upon expiration of this agreement at the completion of the contract term and where there is no renewal, The Leona Group shall have the right to reclaim any usable property or equipment as were purchased by or for the Academy by The Leona Group at its cost or expense. Fixtures and building alterations shall become the property of the Academy.

15. TAX EXEMPT STATUS

The Academy has not filed for its tax exempt status under § 501(c)(3) of the Internal Revenue Code. The Academy does intend to file for such tax exempt status. The Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

16. SUBSEQUENT EVENTS

On August 8, 2003 Lake Erie Villa, LLC was formed for the sole purpose of purchasing the property located at 2740 West Central Avenue, Toledo, Ohio. Lake Erie Villa, LLC purchased the said property at a cost of \$1,250,000. At the November 18, 2003 Board meeting, the Board approved for the Academy to enter into a lease agreement with Lake Erie Villa, LLC. As of May 13, 2004, the lease agreement between the Academy and Lake Erie Villa, LLC has not been executed. Preliminary meetings resulted in a yearly lease amount of \$275,273 for the Academy.

On September 23, 2003, the Academy was provided a loan from Eagle Academy in the amount of \$100,000 and a Loan from Paul Laurence Dunbar Academy in the amount \$50,000. The Academy repaid the \$50,000 to Paul Laurence Dunbar Academy on January 28, 2004 and repaid the \$100,000 loan to Eagle Academy of February 5, 2004.

On February 4, 2004 the Academy entered into a loan agreement with Citizen Banking Corporation in the amount of \$150,000. The note has a maturity date of July 5, 2005 and has an interest rate of 3 percent. The purpose of this note was to repay the loans that were made to the Academy from Eagle and Paul Laurence Dunbar Academies.



**Auditor of State
Betty Montgomery**

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

Lake Erie Academy
Lucas County
2740 West Central Avenue
Toledo, Ohio 43606-3452

To the Governing Board:

We have audited the financial statements of Lake Erie Academy, Lucas County, (the Academy) for the year ended June 30, 2003, and have issued our report thereon dated May 13, 2004. Our report indicated the financial statements were not fairly presented in accordance with accounting principles generally accepted in the United States of America. The Academy did not obtain an exemption from Federal Income taxes and no provision was established for taxes or accrued income taxes at June 30, 2003. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated May 13, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Academy in a separate letter dated May 13, 2004.

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



Betty Montgomery
Auditor of State

May 13, 2004

**LAKE ERIE ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2003-001

Material Weakness - Tax Exempt Status

The Academy has not applied for tax exempt status with the Internal Revenue Service (IRS). Without approval of the tax exempt status, the net income consequently is subject to taxation by the IRS. Further the Academy has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy file for tax exempt status with the IRS and/or establish provisions for federal, state, and local and accrued taxes.



**Auditor of State
Betty Montgomery**

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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
JUNE 8, 2004**