



Mary Taylor, CPA
Auditor of State

LORAIN ACADEMY FOR GIFTED STUDENTS
CUYAHOGA COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lorain Academy for Gifted Students
Lorain County
307 West 7th Street
Lorain, Ohio 44052

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Lorain Academy for Gifted Students, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain Academy for Gifted Students, Lorain County, Ohio, as of June 30, 2006 and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 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 and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

March 22, 2007

LORAIN ACADEMY FOR GIFTED STUDENTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of Lorain Academy for Gifted Students' financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2006 include the following:

- Enrollment increased from 38 students in the 2005 fiscal year (the initial year of operations) to 66 students for the 2006 fiscal year. The increase in enrollment improved the financial position for the school during the year.
- Net assets increased \$13,823, which represents a 34.7% increase from 2005. This increase is due primarily to the increase in enrollment over the previous year.
- Total assets increased \$32,801, which represents a 53.1% increase from 2005. This increase is due to an increase in cash of \$27,021 and other current assets of \$20,407 offset by a decrease in net capital assets of \$14,627. The cash balance increase is due to increased enrollment.
- Liabilities increased \$18,978, which represents an 86.5% increase from 2005. Accounts payable increased by \$8,398, other current liabilities by \$1,867 and long term liabilities increased by a total of \$8,713.
- Operating revenues increased by \$66,399, which represents a 17.4% increase from 2005. The increase is due to increased enrollment resulting in increased state funding and materials fees offset by revenues from Constellation Community Schools to subsidize the first year of operations.
- Operating expenses decreased by \$63,848, which represents a 9.7% decrease from 2005. Operating expense increases due to additional staffing, additional services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues were offset by reductions in materials, supplies and equipment which were purchased in the first year of operations.
- Non-operating revenues decreased by \$119,886, which represents a 42.8% decrease from 2005. This decrease is due mostly to decrease in Federal Start-Up grants.

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

LORAIN ACADEMY FOR GIFTED STUDENTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2006. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statement of Net Assets for fiscal years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 37,578	\$ 10,557
Other Current Assets	21,485	1,078
Capital Assets	<u>35,554</u>	<u>50,181</u>
Total Assets	<u>94,617</u>	<u>61,816</u>
Liabilities		
Current Liabilities	16,282	6,017
Long Term Liabilities	<u>24,626</u>	<u>15,913</u>
Total Liabilities	<u>40,908</u>	<u>21,930</u>
Net Assets		
Net Assets	<u>53,709</u>	<u>39,886</u>
Total Liabilities and Net Assets	<u>\$ 94,617</u>	<u>\$ 61,816</u>

Net Assets increased \$13,823, due primarily to increased enrollment. For assets, cash increased \$27,021; due from other governments increased \$9,757; accounts receivable increased \$10,650, and net capital assets decreased \$14,627 from 2005. For liabilities, accounts payable increased \$8,398; due to other governments increased \$467; deferred revenues increased \$1,400 and leases payable increased \$8,713 from 2005.

LORAIN ACADEMY FOR GIFTED STUDENTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2006.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Revenues		
Foundation and Assistance Revenues	\$ 386,341	\$ 253,208
Other Operating Revenues	<u>61,500</u>	<u>128,234</u>
Operating Revenues	<u>447,841</u>	<u>381,442</u>
Federal and State Grants	160,117	280,003
Private Grants and Contributions	<u>250</u>	<u>-0-</u>
Non-Operating Revenues	<u>160,367</u>	<u>280,003</u>
Total Revenues	<u>608,208</u>	<u>661,445</u>
Expenses		
Salaries	194,207	188,468
Fringe Benefits	63,048	57,552
Purchased Services	266,702	231,935
Materials and Supplies	33,858	118,615
Capital Outlay	6,064	40,469
Depreciation	19,628	14,981
Other Operating Expenses	<u>10,878</u>	<u>6,213</u>
Total Expenses	<u>594,385</u>	<u>658,233</u>
Net Income/(Loss)	13,823	3,212
Net Assets at Beginning of Year	<u>39,886</u>	<u>36,674</u>
Net Assets at End of Year	<u>\$ 53,709</u>	<u>\$ 39,886</u>

Net Assets increased in both fiscal years ending June 30, 2005 and 2006. This is due primarily to increasing revenues from increasing enrollment. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The most significant increases in revenues from 2005 to 2006 are Foundation and Poverty Based Assistance funds (increased \$133,133) due to enrollment increases and increases in formula amounts. Federal and State Grants decreased \$119,886 due mainly to receiving more Federal Start-Up grant funds in 2005. Additionally, Private Grants and Contributions increased \$250.

LORAIN ACADEMY FOR GIFTED STUDENTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Most areas of expenses increased from 2005 to 2006. Salaries and Fringe Benefits increased \$11,235 due to additional staffing and annual increases. Purchased services increased \$34,767 due to additional instructional services, pupil support services, administrative services and occupancy costs. Materials and Supplies decreased \$84,757 and Capital Outlay decreased \$34,405 due to using text books, classroom supplies and classroom equipment purchased with grant funds in fiscal year 2005. Depreciation increased \$4,647 as a result of having a full year of depreciation for computers, equipment and furniture placed in service during the 2005 fiscal year and from additional computers, equipment and furniture purchased during the year. Other Operating Expenses increased \$4,665 due to increased miscellaneous expenses and insurance premiums.

Capital Assets

As of June 30, 2006 the School had \$35,554 invested in leasehold improvements, computers and office equipment, furniture, equipment and materials, net of depreciation. This is a \$14,627 decrease over June 30, 2005.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Capital Assets (net of depreciation)		
Leasehold Improvements	\$ 12,622	\$ 16,051
Computers and Office Equipment	18,263	30,739
Furniture, Equipment & Materials	<u>4,669</u>	<u>3,391</u>
Net Capital Assets	<u>\$ 35,554</u>	<u>\$ 50,181</u>

For more information on capital assets see the Notes to the Financial Statements.

Current Financial Issues

Lorain Academy for Gifted Students opened in the fall of 2005. In its second year of operation it has grown from 38 students, three teaching staff members and expenses of \$658,233 (includes start-up expenditures) to a total of 66 students, five teaching staff members and expenses of \$594,385. Although the enrollment for the 2006-2007 has increased, it remains lower than what we like to see to ensure long-term financial health. We are closely managing the assets of the school to ensure its' financial viability. As the School matures to full enrollment we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

LORAIN ACADEMY FOR GIFTED STUDENTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; by calling 216.635.1881; by faxing 216.635.1883 or by e-mail to babb.thomas@constellationschools.com.

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Lorain Academy for Gifted Students
Lorain County
Statement of Net Assets
As of June 30, 2006

Assets:

Current Assets:

Cash	\$37,578
Due from Other Governments	\$10,835
Accounts receivable	10,650
	<hr/>
<i>Total Current Assets</i>	59,063

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	35,554
	<hr/>
<i>Total Assets</i>	<u>\$94,617</u>

Liabilities:

Current Liabilities:

Accounts Payable	\$11,565
Due Other Governments	\$467
Deferred Revenue	4,250
	<hr/>
<i>Total Current Liabilities</i>	<u>16,282</u>

Long Term Liabilities:

Leases Payable	24,626
	<hr/>
<i>Total Liabilities</i>	<u>40,908</u>

Net Assets:

Investment in capital assets, net of related debt	35,554
Unrestricted	18,155
	<hr/>
<i>Total Net Assets</i>	<u><u>\$53,709</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**Lorain Academy for Gifted Students
Lorain County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$386,341
Other Operating Revenues	<u>61,500</u>
<i>Total Operating Revenues</i>	<u>447,841</u>

Operating Expenses:

Salaries	194,207
Fringe Benefits	63,048
Purchased Services	266,702
Materials and Supplies	33,858
Capital Outlay	6,064
Depreciation	19,628
Other Operating Expenses	<u>10,878</u>
<i>Total Operating Expenses</i>	<u>594,385</u>
Operating Loss	<u>(146,544)</u>

Non-Operating Revenues:

Private Grants and Contributions	250
Federal and State Grants	<u>160,117</u>
<i>Total Non-Operating Revenues</i>	<u>160,367</u>
Net Income	<u>13,823</u>
Net Assets at Beginning of the Year	<u>39,886</u>
Net Assets at End of Year	<u><u>\$53,709</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

Lorain Academy for Gifted Students
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$386,808
Cash Payments to Suppliers for Goods and Services	(364,683)
Cash Payments to Employees for Services	(194,207)
Other Operating Revenues	<u>52,250</u>
Net Cash Used for Operating Activities	<u>(119,832)</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	\$250
Federal and State Grants Received	<u>151,604</u>
Net Cash Provided by Noncapital Financing Activities	<u>151,854</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(5,001)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(5,001)</u>
Net Increase in Cash	27,021
Cash at Beginning of Year	<u>10,557</u>
Cash at End of Year	<u><u>\$37,578</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

Lorain Academy for Gifted Students
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006
(Continued)

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

Operating Loss	(\$146,544)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:

Depreciation	19,628
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments	(1,244)
(Increase) in Accounts Receivable	(10,650)
Increase in Accounts Payable	8,398
Increase in Due Other Governments	467
Increase in Deferred Revenue	1,400
Increase in Leases Payable	8,713
Total Adjustments	26,712
Net Cash Used for Operating Activities	(\$119,832)

The accompanying notes to the financial statements are an integral part of this statement.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

I. Description of the School and Reporting Entity

Lorain Academy for Gifted Students (LAGS) is a nonprofit corporation established on December 5, 2003 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On February 10, 2005, LAGS applied for tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code which is currently under review. Management is not aware of any course of action or series of events that have occurred that might adversely affect LAGS' tax-exempt status. LAGS, which is part of Ohio's education program, is independent of any school district. LAGS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of LAGS.

On January 20, 2004 LAGS was approved for operation under a contract between the Governing Authority of LAGS and Lucas County Educational Service Center (LCESC) as their sponsor. Under the terms of the contract LCESC will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XII for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on September 17, 1999 under the name Constellation Community Schools (management company).

LAGS operates under a five-member Board of Trustees. The 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 qualification of teachers. LAGS controls one instructional facility staffed by five certificated full time teaching personnel who provide services to 66 students.

LAGS entered into an agreement with CCS to provide management services for the fiscal year. See footnote XII for additional information regarding the management company. The board members of LAGS were also board members of CCS until June 15, 2006 at which time a separate CCS Board was formed. LAGS Board members are also Board members of Old Brooklyn Community School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Madison Community School, Stockyard Community School, Greater Cleveland Academy for Gifted Students, Lorain Community Middle School, Old Brooklyn Community Middle School, Westpark Community Middle School and Outreach Academy for Children with Disabilities.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

II. Summary of Significant Accounting Policies

The financial statements of LAGS 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. LAGS also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of LAGS' accounting policies are described below.

1. 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.

2. 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 Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. LAGS prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which LAGS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which LAGS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to LAGS on a reimbursement basis. Expenses are recognized at the time they are incurred.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

II. Summary of Significant Accounting Policies (Continued)

2. Measurement Focus and Basis of Accounting

For fiscal year 2006, LAGS has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries," GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section," and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 44 is to improve the understandability and usefulness of the information that State and local governments present as supplementary information in the statistical section.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statements Nos. 42 and 47 did not materially affect the presentation of the financial statements for the school and GASB Statement No. 44 does not apply to the school.

3. Cash

All monies received by LAGS are deposited in demand deposit accounts.

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 LAGS prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. LAGS will from time to time adopt budget revisions as necessary.

5. Due from Other Governments and Accounts Receivable

Moneys due LAGS for the year ended June 30, 2006 are recorded as Due from Other Governments and Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

II. Summary of Significant Accounting Policies (Continued)

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$500 or more 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.

Leasehold improvements are also 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.

Depreciation of leasehold improvements, computers, furniture, equipment and materials is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers and Office Equipment	3
Leasehold Improvements	5
Furniture, Equipment & Materials	10

7. Intergovernmental Revenues

LAGS currently participates in the State Foundation Program and the State Poverty Based Assistance 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.

LAGS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, LAGS was awarded \$150,000 in fiscal year 2006 to offset start-up costs of the School. During fiscal year 2006, \$141,762 from the 2006 award was received with the balance of \$8,238 recorded as Due from Other Governments. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2006 school year totaled \$546,458.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

II. Summary of Significant Accounting Policies (Continued)

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar, therefore, LAGS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum amount of one hundred twenty days. LAGS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

9. Use of 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 these estimates.

10. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for LAGS consists of material and fees received in the current year which pertain to the next school year.

III. Deposits

At fiscal year end June 30, 2006, the carrying amount of LAGS' deposits totaled \$37,578 and its bank balance was \$51,883. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, LAGS will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of LAGS.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

IV. Capital Assets

A summary of capital assets at June 30, 2006 follows:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Capital Assets Being Depreciated:				
Leasehold Improvements	\$19,064	\$748	\$0	\$19,812
Computers/Office Equipment	42,445	2,508	0	44,953
Furniture, Equipment & Materials	<u>3,653</u>	<u>1,745</u>	<u>0</u>	<u>5,398</u>
Total Capital Assets Being Depreciated:	<u>65,162</u>	<u>5,001</u>	<u>0</u>	<u>70,163</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(3,013)	(4,177)	0	(7,190)
Computers & Office Equip	(11,706)	(14,984)	0	(26,690)
Furniture, Equipment & Materials	<u>(262)</u>	<u>(467)</u>	<u>0</u>	<u>(729)</u>
Total Accumulated Depreciation:	<u>(14,981)</u>	<u>(19,628)</u>	<u>0</u>	<u>(34,609)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$50,181</u>	<u>\$(14,627)</u>	<u>\$0</u>	<u>\$35,554</u>

V. Purchased Services

Purchased Services include the following:

Instruction	\$25,528
Pupil Support Services	14,250
Staff Development & Support	9,449
Administrative	66,865
Occupancy Costs	<u>150,610</u>
Total	<u>\$266,702</u>

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

VI. Operating Leases

LAGS leases its facilities at 309 Seventh Street, Lorain from St. Mary Church under a five year lease agreement effective July 1, 2004 and expiring June 30, 2009. Monthly payments under the terms of the lease are \$6,000 for the first year. The lease provides 10% increases in the monthly rent at the beginning of each July.

LAGS recognizes these non-cancelable lease costs on the straight line basis. A comparison of scheduled lease costs and payments due is as follows:

Lease Year	Straight Line Expense	Rental Payments Due
2007	\$ 87,913	\$ 87,120
2008	87,913	95,832
2009	<u>87,913</u>	<u>105,413</u>
Total	<u>\$263,739</u>	<u>\$288,365</u>

LAGS has recorded \$8,713 as leases payable for fiscal year 2006 on the Statement of Net Assets. This amount represents the difference between rental payments made and the amounts due, based on the straight line basis over the life of the lease. The Leases Payable balance as of June 30, 2006 is \$24,626.

VII. Risk Management

1. Property and Liability Insurance

LAGS 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 fiscal year 2006, LAGS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$2,000,000 single occurrence limit and \$4,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

LAGS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2006 there have been no claims filed by LAGS employees with the Ohio Worker's Compensation System.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

VII. Risk Management (Continued)

3. Employee Medical, Dental, and Vision Benefits

LAGS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to LAGS for insurance benefits was \$23,926.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

LAGS contributes to the School Employees Retirement System of Ohio (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 state statute per 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 (800)878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and LAGS is required to contribute an actuarially determined rate. The current rate for LAGS is 14 percent of annual covered payroll. A portion of LAGS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. LAGS' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006 and 2005 were \$1,854 and \$1,407. For fiscal year 2006, all required contributions have been made.

2. State Teachers Retirement System

LAGS 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. LAGS is also the account through which the management company (CCS) makes their required contributions to STRS. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

LORAIN ACADEMY FOR GIFTED STUDENTS
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

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 member contributions and earned interest matched by STRS Ohio funds divided by 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. 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 balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary. LAGS was required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. For fiscal year 2005, 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.

LORAIN ACADEMY FOR GIFTED STUDENTS
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

LAGS' required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006 and 2005 were \$22,969 and \$22,262. For fiscal year 2006, LAGS contributions totaling \$1980 were overpaid at year end and are reflected in Due from Other Governments in the accompanying financial statements. All other required contributions have been made.

IX. Post-Employment Benefits

LAGS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. 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, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For LAGS, this amount equaled \$1,767 during fiscal 2006.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 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. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility and retirement status.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

IX. Post-Employment Benefits (Continued)

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For LAGS, the amount contributed to fund health care benefits, including surcharge, during the 2006 fiscal year equaled \$863.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

X. 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...".

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

XI. Contingencies

1. Grants

LAGS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs 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 LAGS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LAGS at June 30, 2006.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

XI. Contingencies (Continued)

2. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on LAGS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment 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 conclusions of this review could result in state funding being adjusted. As of the date of this report adjustments to the state funding received during fiscal year 2006 are reflected in the financial statements.

XII. Sponsorship and Management Agreement

LAGS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1% of state funds received by LAGS, from the State of Ohio. The total amount due from LAGS for fiscal year 2006 was \$3,868 of which \$321 was outstanding as of June 30, 2006.

LAGS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2006. The agreement was for a period of one year, effective July 1, 2005. Management fees are calculated as 11% of the Fiscal Year 2006 Foundation payment received by LAGS, as reported in the Monthly Community School Foundation Report. The total amount due from LAGS for the fiscal year ending June 30, 2006 was \$42,498 of which \$51 was outstanding as of June 30, 2006 and has been included in accounts payable.

In addition LAGS is participating in a payroll bonus reserve established through CCS. Payroll bonus reserve fees are calculated as 1% of the Fiscal Year 2006 Foundation payment received by LAGS, as reported in the Monthly Community School Foundation Report. The total amount due from LAGS for the fiscal year ending June 30, 2006 was \$3,862 of which \$1 was outstanding as of June 30, 2006 and has been included in accounts payable.

LORAIN ACADEMY FOR GIFTED STUDENTS
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

XIII. Related Parties

The members of the LAGS Board of Trustees were also members of Constellation Community Schools until June 15, 2006 at which time a separate CCS Board was formed. LAGS contracts with CCS for legal, financial and business management services.

LAGS Board members are also Board members of Old Brooklyn Community School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Madison Community School, Stockyard Community School, Greater Cleveland Academy for Gifted Students, Lorain Community Middle School, Old Brooklyn Community Middle School, Westpark Community Middle School and Outreach Academy for Children with Disabilities.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Lorain Academy for Gifted Students
Lorain County
307 West 7th Street
Lorain, Ohio 44052

To the Board of Trustees:

We have audited the basic financial statements of the Lorain Academy for Gifted Students, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 22, 2007. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated March 22, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated March 22, 2007, we reported another matter related to noncompliance we deemed immaterial.

Lorain Academy for Gifted Students
Lorain County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

March 22, 2007



Mary Taylor, CPA
Auditor of State

LORAIN ACADEMY FOR GIFTED STUDENTS

LORAIN 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 28, 2007**