LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

INDEPENDENT ACCOUNTANTS' REPORT

Little Eagle Kindergarten Program
Stark County
901 44th Street NW
Canton, Ohio 44709

To the Board of Directors:

We have audited the accompanying basic financial statements of the Little Eagle Kindergarten Program, Stark County, Ohio, (the Program) a component unit of the Plain Local School District, as of and for the years ended June 30, 2005 and 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Program'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 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 that 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 Little Eagle Kindergarten Program, as of June 30, 2005 and 2004, and the changes in its 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 February 3, 2006, on our consideration of the Program'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. We previously issued a report dated December 17, 2004, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and grants for the year ended June 30, 2004. While we did not opine on the internal control over financial reporting or on compliance, these reports describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read them in conjunction with this report in assessing the results of our audit.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

February 3, 2006

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

The discussion and analysis of the Little Eagle Kindergarten Program's (the "Program") financial performance provides an overall review of the Program's financial activities for the fiscal year ended June 30, 2005 and 2004. The intent of this discussion and analysis is to look at the Program's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Program's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets were $175,693 at June 30, 2005.

- The Program had operating revenues of $72,958 and operating expenses of $167,562 for fiscal year 2005. The Program also received $153,000 in federal and state grants during fiscal year 2005. Total change in net assets for the fiscal year was an increase of $58,396.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Program's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Program, including all short-term and long-term financial resources and obligations.

Reporting the Program's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2005 and 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Program's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Program as a whole, the *financial position* of the Program has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Program finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The table below provides a summary of the Program's net assets for fiscal year 2005 and 2004.

Net Assets

	2005	2004
Assets		
Current assets	$ 156,482	$ 92,063
Capital assets, net	19,736	25,358
Total assets	176,218	117,421
Liabilities		
Current liabilities	525	124
Total liabilities	525	124
Net Assets		
Invested in capital assets	19,736	25,358
Restricted	137,172	57,656
Unrestricted	18,785	34,283
Total net assets	$ 175,693	$ 117,297

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Program's assets exceeded liabilities by $175,693.

At year-end, capital assets represented 11.20% of total assets. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

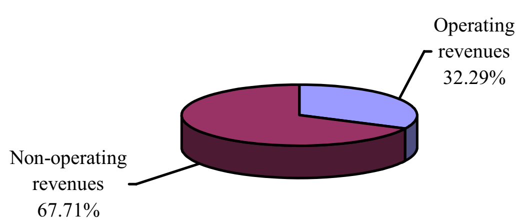
The table below shows the changes in net assets for fiscal year 2005 and 2004.

Change in Net Assets

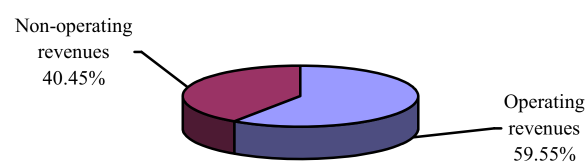
	2005	2004
Operating Revenues:		
State foundation	$ 72,622	$ 69,704
Other	336	967
Total operating revenue	72,958	70,671
Operating Expenses:		
Purchased services	160,462	228,492
Materials and supplies	1,478	19,887
Other	-	29
Depreciation	5,622	5,192
Total operating expenses	167,562	253,600
Non-operating revenues:		
Federal and state grants	153,000	48,000
Total non-operating revenues	153,000	48,000
Change in net assets	58,396	(134,929)
Net assets at beginning of year	117,297	252,226
Net assets at end of year	$ 175,693	$ 117,297

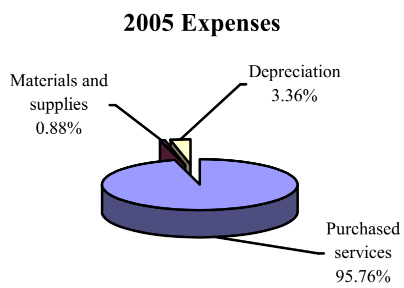
The charts below illustrate the revenues and expenses for the Academy during fiscal 2005 and 2004.

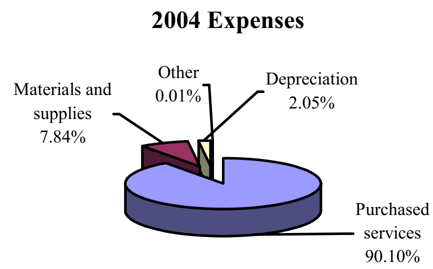
2005 Revenues



2004 Revenues







Capital Assets

At June 30, 2005, the Program had $19,736 invested in furniture and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The Program is sponsored by the Plain Local School District. The Program relied on the state foundation funds as well as the federal sub-grants to provide the monies necessary to begin the start-up of a kindergarten school. The Program has received a third round of federal funding. This grant will be exhausted in January 2006. These funds are being used to help expand the current program. State foundation monies fund current operations.

The future of the Program is dependent upon continued funding from the state foundation funds as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the Program to pursue other state and federal sub-grants as they become available.

In conclusion, the Little Eagle Kindergarten Program has committed itself to providing premier early childhood opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the Program.

Contacting the Program's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Program's finances and to show the Program's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Kathleen Jordan, CFO, Little Eagle Kindergarten Program, 901 44th Street, NW, Canton, Ohio 44709-1699.

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2005 AND 2004

	2005	2004
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents. . .	$ 30,987	$ 49,328
Receivables:		
Intergovernmental.	125,000	42,300
Prepayments.	495	435
Total current assets	156,482	92,063
Non-current assets:		
Capital assets, net.	19,736	25,358
Total assets	176,218	117,421
Liabilities:		
Accounts payable	525	124
Total liabilities	525	124
Net Assets:		
Invested in capital assets	19,736	25,358
Restricted for:		
State funded programs.	-	3,000
Federally funded programs	137,172	54,656
Unrestricted.	18,785	34,283
Total net assets	$ 175,693	$ 117,297

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Operating revenues:		
State foundation.	$ 72,622	$ 69,704
Other	336	967
Total operating revenue	72,958	70,671
Operating expenses:		
Purchased services.	160,462	228,492
Materials and supplies	1,478	19,887
Other operating expenses	-	29
Depreciation	5,622	5,192
Total operating expenses.	167,562	253,600
Operating loss	(94,604)	(182,929)
Non-operating revenues:		
Federal and state grants	153,000	48,000
Total non-operating revenues	153,000	48,000
Change in net assets	58,396	(134,929)
Net assets at beginning of year	117,297	252,226
Net assets at end of year	$ 175,693	$ 117,297

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LITTLE EAGLE KINDERGARTEN PROGRAM
STARK COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Cash flows from operating activities:		
Cash received from State foundation	$ 72,622	$ 69,704
Cash received from other operations	336	967
Cash payments to suppliers for goods and services	(160,384)	(228,927)
Cash payments for materials and supplies	(1,215)	(19,763)
Cash payments for other expenses	-	(29)
Net cash used in operating activities	(88,641)	(178,048)
Cash flows from noncapital financing activities:		
Federal and state grants	70,300	110,700
Net cash provided by noncapital financing activities	70,300	110,700
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	(23,698)
Net cash used in capital and related financing activities	-	(23,698)
Net decrease in cash and cash equivalents	(18,341)	(91,046)
Cash and cash equivalents at beginning of year	49,328	140,374
Cash and cash equivalents at end of year	$ 30,987	$ 49,328
Reconciliation of operating loss to net cash used in operating activities: operating activities:		
Operating loss	$ (94,604)	$ (182,929)
Adjustments:		
Depreciation	5,622	5,192
Changes in assets and liabilities:		
Increase in prepayments	(60)	(435)
Increase in accounts payable	401	124
Net cash used in operating activities	$ (88,641)	$ (178,048)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

NOTE 1 - DESCRIPTION OF THE PROGRAM

The Little Eagle Kindergarten (the "Program") was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Plain Local School District (the "Sponsor") addressing the needs of students in kindergarten. The Program, 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 Program may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Program. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Program's tax-exempt status. The Program is considered a component unit of the Plain Local School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Program provides opportunities for school aged students whose parents are seeking a "center experience" in a developmentally appropriate environment. The Program continues to develop a full day educational experience using the latest early childhood research to reach a diverse student population. Enrollment is limited to students within the attendance area of the Sponsor. Due to the recent research findings in the area of early literacy, technology and the arts, as well as the growing need for many of our students to experience safe, caring and learner-focused programs, we believe the time is optimal to continue an effective alternative full day program in a developmentally appropriate center environment. The Program will use the services of the Sponsor, community, early childhood specialists, the Stark County Educational Service Center and the Stark Portage Area Computer Consortium to assist with overall programming and operations.

The Program was approved under contract with the Sponsor for a period of five years commencing July 1, 2002. The Program began operations on August 25, 2003. The Sponsor is responsible for evaluating the performance of the Program and has the authority to deny renewal of the contract at its expiration.

The Program operates under the direction of a five-member Board of Directors. The Board is composed of the Sponsor's Superintendent together with two other licensed administrators who are employed by the Sponsor. The Board also includes two other persons who are neither officers nor staff members of the Program or Sponsor to serve as voting members. One of the members is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Program. The other member is a representative appointed by the Program who within one year following the incorporation of the Program, be replaced by a person who represents the interests of parents and students served by the Program. 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.

The Sponsor, under a purchased services basis with the Program, provides planning, instructional, administrative and technical services. Personnel providing services to the Program on behalf of the Sponsor under the purchased services basis are considered employees of the Sponsor, and the Sponsor is solely responsible for all payroll functions. The Program provides services to approximately twenty-five students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Program also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Program has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Program has elected not to apply these FASB Statements and Interpretations. The Program's significant 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) 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.

Operating revenues are those revenues that are generated directly from the primary activity of the Program. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Program. All revenues and expenses not meeting this definition are reported as non-operating.

B. Measurement Focus and Basis of Accounting

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 (i.e., revenues) and decreases (i.e., 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 utilized 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 Section 5705, unless specifically provided in the Program’s contract with its Sponsor. The contract between the Program and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705, except for section 5705.391 as it relates to five-year forecasts and spending plans.

D. Cash

All monies received by the Program are deposited in a demand deposit account.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Program maintains a capitalization threshold of $750. The Program does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five to twenty years.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Program applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

H. Intergovernmental Revenue

The Program currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue 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 includes 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 Program must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Program on a reimbursement basis. Federal and State grants for the fiscal year 2005 received by the Program was $153,000.

I. Estimates

The preparation of financial statements in conformity with GAAP 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.

NOTE 3 - DEPOSITS

At June 30, 2005, the carrying amount of the Program's deposits was $30,987 and the bank balance was $31,210. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2005, none of the Program's bank balance was exposed to custodial risk. The bank balance was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for fiscal year 2005 was as follows:

	Balance at July 1, 2004	Additions	Disposals	Balance at June 30, 2005
Furniture and equipment	$ 30,911	$ -	$ -	$ 30,911
Less: accumulated depreciation	(5,553)	(5,622)	-	(11,175)
Capital assets, net	$ 25,358	$ (5,622)	$ -	$ 19,736

NOTE 5 - RECEIVABLES

The Program participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Program was awarded $150,000 during the fiscal year ended June 30, 2005 to offset start-up costs of the Program. Revenue received from this program is recognized as grants and subsidies in the accompanying financial statements. $125,000 of this award was receivable at June 30, 2005. This amount is presented as "Intergovernmental" on the statement of net assets. All intergovernmental receivables are considered collectible in full due to the current year guarantee of Federal funds.

NOTE 6 - RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2005, the Program was named on the Sponsor's policy with Indiana Insurance Company for property and general liability insurance.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2005, purchased services expenses were as follows:

Professional and technical services	$156,559
Property services	2,178
Travel and meetings	1,725
Total	$160,462

NOTE 8 - RENTAL/PERSONNEL AGREEMENT

The Program entered into a rental/personnel agreement with the Plain Local School District for the use of classrooms, office space, and personnel services. This agreement was for the period of one year beginning July 10, 2004, with an automatic renewal option. Payments of $149,684 were made for contracted personnel services during fiscal year 2005.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

The Program has contracted its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the Program of the obligation for remitting pension contributions. The retirement systems consider the Program as the Employer-of-Record and the Program ultimately responsible for remitting contributions to each of the systems noted below:

A. School Employees Retirement System

The Program's Sponsor contributes on behalf of the Program 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the Program is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the Program's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2005, 10.57% of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09% was used 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. The Program's required contributions for pension obligations for the fiscal year 2005 were paid by the Program's Sponsor.

NOTE 9 - DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

The Program's Sponsor contributes on behalf of the Program to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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, or by calling (614) 227-4090.

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during the fifth year of membership unless they permanently select the DC or Combined Plan

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The Program was required to contribute 14%; 13% was the portion used to fund pension obligations. As a comparison, 13% was used to fund pension obligations in 2004. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Program's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2005, were paid by the Program's Sponsor.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Program provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has 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% of covered payroll. For fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was $3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were $268.739 million and STRS had 111,853 eligible benefit recipients.

NOTE 10 - POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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 the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available) were $223.444 million and the target level was $335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of $300.8 million and SERS had approximately 62,000 participants receiving health care benefits. The Program's costs were paid by the Program's Sponsor.

NOTE 11 - 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 Program is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 12 - CONTINGENCIES

A. Grants

The Program received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Program at June 30, 2005.

NOTE 12 - CONTINGENCIES - (Continued)

B. 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's 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. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the states public educational system and the matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the approval from the Court of Appeals for review on February 16, 2005. Oral arguments occurred November 29, 2005. The effect of this suit, if any, on the Program is not presently determinable.

C. State Foundation 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 Program was reviewed two times during fiscal year 2005 and after year end and zero errors were found in enrollment, withdrawals and attendance.

NOTE 13 - RELATED PARTY TRANSACTION

Golden Eagle Digital Academy and Plain Local Academy of Technology all have similar board members as Little Eagle Kindergarten Program. There were no financial contributions between these related party entities.

Auditor of State
Betty Montgomery

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

Little Eagle Kindergarten Program
Stark County
901 44th Street NW
Canton, Ohio 44709

To the Board of Directors:

We have audited the financial statements of the Little Eagle Kindergarten Program, Stark County, Ohio, (the Program) a component unit of the Plain Local School District, as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated February 3, 2006. 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 Program'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.

Compliance and Other Matters

As part of reasonably assuring whether the Program'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*.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

Betty Montgomery

Betty Montgomery
Auditor of State

February 3, 2006

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

LITTLE EAGLE KINDERGARTEN PROGRAM

STARK 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
MARCH 14, 2006