



**Auditor of State
Betty Montgomery**

**TOLEDO ACADEMY OF LEARNING
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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Toledo Academy of Learning
Lucas County
301 Collingwood Boulevard
Toledo, Ohio 43602-1624

To the Governing Board:

We have audited the Balance Sheet of the Toledo Academy of Learning, Lucas County, (Academy) as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year ended June 30, 2002, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Toledo Academy of Learning, Lucas County, Ohio, as of June 30, 2002, and the results of its operations 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 January 28, 2003 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.

The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 28, 2003

**TOLEDO ACADEMY OF LEARNING
BALANCE SHEET
AS OF JUNE 30, 2002**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$199,414
Intergovernmental Receivable	81,535
Prepaid Items	<u>8,173</u>
Total Current Assets	289,122

Non-Current Assets

Security Deposit	12,064
Fixed Assets (Net of Accumulated Depreciation)	<u>158,974</u>
Total Assets	<u><u>\$460,160</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$16,724
Intergovernmental Payable	40,268
Accrued Wages	<u>3,518</u>
Total Current Liabilities	<u>60,510</u>

Long-Term Liabilities

Intergovernmental Payable	<u>25,905</u>
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Fund Equity

Retained Earnings Unreserved	<u>373,745</u>
Total Liabilities and Fund Equity	<u><u>\$460,160</u></u>

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

**TOLEDO ACADEMY OF LEARNING
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues

Foundation Payments	\$862,873
Disadvantaged Pupil Impact Aid	165,022
Classroom Materials and Fees	2,950
Extracurricular Activities	1,309
Other Operating Revenues	<u>4,412</u>
 Total Operating Revenues	 <u>1,036,566</u>

Operating Expenses

Salaries	534,477
Fringe Benefits	165,449
Purchased Services	292,635
Materials and Supplies	107,378
Depreciation	52,755
Other Operating Expenses	<u>9,017</u>
 Total Operating Expenses	 <u>1,161,711</u>
 Operating Loss	 <u>(125,145)</u>

Non-Operating Revenues (Expenses)

Grants - State	19,348
Grants - Federal	440,096
Contributions and Donations	1,585
Loss on Abandonment of Fixed Asset	(71,153)
Interest Earnings	<u>2,405</u>
 Total Non-Operating Revenues (Expenses)	 <u>392,281</u>
 Net Income	 267,136
 Retained Earnings at Beginning of Period	 <u>106,609</u>
 Retained Earnings at End of Period	 <u><u>\$373,745</u></u>

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

**TOLEDO ACADEMY OF LEARNING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Cash Flows from Operating Activities

Cash Received from State Foundation and Disadvantaged Pupil Impact Aid	\$1,025,191
Cash Received from Other Sources	8,670
Cash Payments to Suppliers for Goods and Services	(401,041)
Cash Payments to Employees for Services	(534,233)
Cash Payments for Employee Benefits	(158,185)
Other Payments for Operating Uses	<u>(10,108)</u>
Net Cash Used for Operating Activities	(69,706)

Cash Flows from Noncapital Financing Activities

Grants Received - State	19,231
Grants Received - Federal	358,678
Contributions and Donations	<u>1,585</u>
Net Cash Provided by Noncapital Financing Activities	379,494

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(198,922)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(198,922)</u>

Cash Flows from Investing Activities

Interest on Investments	<u>2,405</u>
Net Cash Provided by Investing Activities	<u>2,405</u>
Net Increase in Cash and Cash Equivalents	113,271
Cash and Cash Equivalents at the Beginning of the Year	<u>86,143</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$199,414</u></u>

(Continued)

**TOLEDO ACADEMY OF LEARNING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

Operating Loss (\$125,145)

**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities**

Depreciation 52,755

Changes in Assets and Liabilities

(Increase) in Prepaid Items (7,001)

(Increase) in Security Deposit (12,064)

Decrease in Accounts Payable (2,416)

Increase Accrued Wages 244

Decrease in Intergovernmental Payable 23,921

Total Adjustments 55,439

Net Cash Provided by Operating Activities (\$69,706)

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

**TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Toledo Academy of Learning (Academy) is a State nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to bridge the gap between families, educators, and the community to form a supportive network dedicated to fostering excellence and innovation in education. The developmental program is offered year-round for students in kindergarten through eighth grade who are average, at risk, special needs, or gifted. 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 school.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 19, 1999. 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 sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Toledo Academy of Learning, (see note 14).

The Academy operates under the direction of an eight-member Governing Board. 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 one instructional/support facility staffed by 16 non-certified and 11 certificated full-time teaching personnel who provide services to 183 students.

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 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.

TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

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.

D. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for all funds of the Academy are maintained in these accounts or temporarily used to purchase short-term investments. For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity 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.

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.

Depreciation of furniture and equipment and leasehold improvements 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 and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues 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.

Amounts awarded under the above named programs for the 2002 school year totaled \$459,444.

TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year the services are consumed.

H. Security Deposit

Payment made to lessor for security deposit is recorded on the balance sheet as a non-current asset.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2002, the carrying amount of the Academy's deposits was (\$42,795) and the bank balance was \$41,233. The bank balance was covered by federal depository insurance.

Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes investments insured or registered for which securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. The Academy's investments totaling \$242,209 (reported at fair value), which are maintained in a Business Sweep Account (repurchase agreement), which are included in Category 2.

4. RECEIVABLES

Receivables at June 30, 2002, consisted of intergovernmental (e.g. grants) receivables which are considered collectible in full due to the current year guarantee of federal funds.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$204,799
Leasehold Improvements	<u>30,569</u>
Subtotal	235,368
Less: Accumulated Depreciation	<u>(76,394)</u>
Net Fixed Assets	<u><u>\$158,974</u></u>

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

TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

period July 1, 2001 through June 30, 2002, the Academy contracted with Nationwide Insurance for property and general liability insurance.

Professional liability is protected by Nationwide Insurance with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

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.

C. Employee Medical, Dental, Vision, Prescription, and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription, and life insurance to its full time employees who work 40 or more hours per week.

7. DEFINED BENEFIT PENSION PLANS

A. 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 established by Chapter 3309 of the Ohio Revised Code.

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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the years ended June 30, 2002, 2001 and 2000 were \$11,624, \$6,290, and \$8,306; 85.75 percent has been contributed for fiscal year 2002 and 100 percent for fiscal year 2001. The unpaid contribution for fiscal year 2002, in the amount of \$1,274 is recorded as a liability.

B. 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, annual cost-of-living adjustments, and death benefits to members and 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.

TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2002. 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 to STRS for fiscal years 2002, 2001 and 2000 were \$25,541, \$20,610, and \$14,735; 86.58 percent has been contributed for fiscal year 2002 and 100 percent for fiscal year 2001. The unpaid contribution for fiscal year 2002, in the amount of \$3,428, is recorded as a liability.

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 non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio 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 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$12,783 during the year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

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

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. 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 2001, the minimum pay has been established at \$12,400. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$23,215 for fiscal year 2002.

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, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

9. OTHER EMPLOYEE BENEFITS

Compensated Absences

The criterion for determining vacation is derived from policies and procedures approved by the Governing Board. Three employees received vacation benefits during the year and at the fiscal year end, no vacation leave was unused.

The criterion for determining sick and personal leave is derived from policies and procedures approved by the Governing Board. All full time employees earn one sick day for every two months of work up to a maximum of five days per year and two personal days per school year. Sick leave and personal leave shall not accrue from year to year, nor shall unused leave be paid.

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

11. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could 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, 2002.

B. Ohio Community School Program

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. The effect of this suit, if any, on the Academy is not presently determinable.

C. School 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. As a result of this review, the Academy's state foundation funding was reduced by \$147 in fiscal year 2002.

12. OPERATING LEASES

The School entered into a lease, with subsequent amendments, for the period August 1, 1999 through July 31, 2002 with Riverside Mercy Hospital to lease space to house the School.

TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

The School terminated this lease with Riverside Mercy Hospital in August of 2001.

The Academy entered into a building lease agreement with NZB Limited Liability Company commencing September 1, 2001 through August 30, 2004. The base rent for the initial term is the sum of \$514,544 payable in equal monthly installments of \$12,064 during the first year and \$15,616 per month during the second and third years of the leasehold term. The academy has the option to renew the lease for an additional three-year term. The Academy paid \$120,638 in rent during the fiscal year.

The Academy has entered into a lease with Copelco Capital commencing September 24, 1999 for a term of 36 months for a copier. Payments made totaled \$3,289 for the period. Unless otherwise notified by the lessee, the lease is renewable monthly at the same rate.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2002.

<u>Fiscal Year Ending June 30,</u>	<u>Facility Rental</u>	<u>Copier</u>
2003	\$180,286	\$822
2004	124,928	
Total minimum payments	<u>\$305,214</u>	<u>\$822</u>

13. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2002, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES

Professional and Technical Services	\$87,150
Property Services	153,002
Communications	14,438
Contracted Craft or Trade Service	153
Pupil Transportation Services	18,413
Utilities	5,316
Travel Mileage/Meeting Expense	<u>14,163</u>
Total Purchased Services	<u>\$292,635</u>

14. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Toledo Academy of Learning. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The amount paid to Fiscal Agent for fiscal year 2002 totaled \$0, \$15,600 was payable at year end.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor's or any other Community School's funds;

TOLEDO ACADEMY OF LEARNING
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

- Maintain all books and accounts of all funds of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending funds;
- Assist the School in meeting all financial reporting requirements established by the State Auditor;
- Invests funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the School within a reasonable of time, not more than 14 calendar days after the receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

15. ABANDONMENT OF LEASEHOLD IMPROVEMENTS

In September 2001, in accordance with cancellation of its lease agreement, the Academy abandoned leasehold improvements with a book value of \$71,153, resulting in a non-operating expense (see note 12).

16. RELATED PARTIES

During the fiscal year, the School's Governing Board entered into a one-year employment contract with the Assistant Director. The Assistant Director's spouse is a member of the Governing Board. Total payments to the Assistant Director during the audit period totaled \$25,000.

**TOLEDO ACADEMY OF LEARNING
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Program Title				
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<u>Nutrition Cluster:</u>				
National School Breakfast Program	133975-05PU-2002	10.553	\$3,656	\$3,092
National School Lunch Program	133975-LLP7-2002 133975-LLP4-2002	10.555	20,031	18,208
Total U.S. Department of Agriculture - Nutrition Cluster			23,687	21,300
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States (IDEA Part B)	133975-6BSF-2002-P	84.027	3,728	3,290
Eisenhower Professional Development State Grant (Title II)	133975-MSS1-2002	84.281	1,171	336
Charter Schools	133975-CHS1-2002	84.282	300,000	274,606
Grants to Local Educational Agencies (ESEA Title I)	133975-C1S1-2002	84.010	26,084	22,170
Innovative Educational Program Strategies (Title VI)	133975-C2S1-2002	84.298	669	1,728
Drug-Free Schools Grant (Title IV)	133975-DRS1-2002	84.186	700	2,000
Class Size Reduction (Title VIR)	133975-CRS1-2002	84.340	2,639	
Total Department of Education			334,991	304,130
Total Federal Awards			\$358,678	\$325,430

The accompanying notes are an integral part of this schedule.

**TOLEDO ACADEMY OF LEARNING
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the Academy to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Academy has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Toledo Academy of Learning
Lucas County
301 Collingwood Boulevard
Toledo, Ohio 43602-1624

To the Governing Board:

We have audited the financial statements of the Toledo Academy of Learning, Lucas County, (Academy) for the year ended June 30, 2002, and have issued our report thereon dated January 28, 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 a certain immaterial instance of noncompliance that we have reported to the management of the Academy in a separate letter dated January 28, 2003.

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 conditions are described in the accompanying schedule of findings as items 2002-10148-001 and 2002-10148-002.

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 conditions described above to be material weaknesses. 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 January 28, 2003.

This report is intended for the information and use of management, the governing board, audit committee, sponsor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 28, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Toledo Academy of Learning
Lucas County
301 Collingwood Boulevard
Toledo, Ohio 43602-1624

To the Governing Board:

Compliance

We have audited the compliance of the Toledo Academy of Learning, Lucas County, (Academy) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, governing board, sponsor, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 28, 2003

**TOLEDO ACADEMY OF LEARNING
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Charter Schools Grant – CFDA # 84.282
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2002-10148-001

Material Weakness - Fixed Asset Controls

The following control weaknesses over fixed assets exist:

- The School has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information. The School has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the year.
- The School has not implemented procedures to perform periodic inventory of assets.

**FINDING NUMBER 2002-10148-001
(Continued)**

Failure to employ adequate controls over the acquisition, disposal and recording of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that the School's assets will be misstated, we recommend:

- The Governing Board develops and implements procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the School's capitalization criteria. Further, addition and disposal forms should be completed by the School and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation creating a master fixed asset listing.
- The School develops and implements procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added. This master listing of all assets can be then reconciled to the balance sheet and note disclosure amounts.

FINDING NUMBER 2002-10148-002

Material Weakness - Purchasing Controls

Twenty-two percent of purchase orders did not have the Fiscal Agent's signature approving the purchase.

Review and approval of expenditures by the Fiscal Agent is a key control in the disbursement process to determine that expenditures are for a proper purpose, within budget, and charged against proper fund code.

Lack of proper review and approval could result in funds being spent on purchases that are not for a proper public purpose, disbursements that exceed the budgeted amount, payments being made to fictitious vendors and expenditures not being charged to the correct account.

We recommend the Fiscal Agent review and sign every purchase order before a check is paid to a vendor.

**TOLEDO ACADEMY OF LEARNING
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10148-001	Material Weakness of Fixed Asset Controls	No	Not Corrected, reissued as Finding Number 2002-10148-001



**Auditor of State
Betty Montgomery**

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TOLEDO ACADEMY OF LEARNING

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
MARCH 18, 2003**