



**Auditor of State
Betty Montgomery**

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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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, (the Academy) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2003, and the results of its operations and the 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 10, 2004, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 10, 2004

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**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$ 61,421
Intergovernmental Receivable	136,669
Prepaid Items	<u>27,188</u>

Total Current Assets 225,278

Non-Current Assets

Security Deposit	12,064
Fixed Assets (Net of Accumulated Depreciation)	<u>210,083</u>

Total Assets \$ 447,425

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$ 35,177
Compensated Absences	542
Intergovernmental Payable	16,985
Accrued Wages	<u>2,700</u>

Total Current Liabilities 55,404

Fund Equity

Retained Earnings:	
Unreserved	<u>392,021</u>

Total Liabilities and Fund Equity \$ 447,425

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

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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

Operating Revenues

Foundation Payments	\$ 1,078,438
Disadvantaged Public Impact Aid	165,159
Food Services	5,305
Special Education	53,345
Classroom Materials and Fees	1,525
Extracurricular Activities	1,242
Other Operating Revenues	<u>10,893</u>
Total Operating Revenues	<u>1,315,907</u>

Operating Expenses

Salaries	718,155
Fringe Benefits	231,230
Purchased Services	388,261
Materials and Supplies	139,020
Capital Outlay	5,035
Depreciation	71,618
Other Operating Expenses	<u>22,954</u>
Total Operating Expenses	<u>1,576,273</u>
Operating Loss	<u>(260,366)</u>

Non-Operating Revenues

Grants - State	11,198
Grants - Federal	265,541
Contributions and Donations	19
Interest Earnings	<u>1,884</u>
Total Non-Operating Revenues	<u>278,642</u>
Net Loss	18,276
Retained Earnings at Beginning of Period	<u>373,745</u>
Retained Earnings at End of Period	<u><u>\$ 392,021</u></u>

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

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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

Cash Flows from Operating Activities

Cash Received from State Foundation and Disadvantaged Pupil Impact Aid	\$ 1,271,037
Cash Received from Other Sources	18,965
Cash Payments to Suppliers for Goods and Services	(551,913)
Cash Payments to Employees for Services	(717,885)
Cash Payments for Claims	(1,000)
Cash Payments for Employee Benefits	(234,466)
Other Payments for Operating Uses	<u>(23,512)</u>
Net Cash Used for Operating Activities	(238,774)

Cash Flows from Noncapital Financing Activities

Grants Received - State	11,315
Grants Received - Federal	210,290
Contributions and Donations	<u>19</u>
Net Cash Provided by Noncapital Financing Activities	221,624

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(122,727)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(122,727)</u>

Cash Flows from Investing Activities

Interest on Investments	<u>1,884</u>
Net Cash Provided by Investing Activities	<u>1,884</u>
Net Decrease in Cash and Cash Equivalents	(137,993)
Cash and Cash Equivalents at the Beginning of the Year	<u>199,414</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 61,421</u></u>

(Continued)

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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

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

Operating Loss	\$ (260,366)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	71,618
Changes in Assets and Liabilities	
(Increase) in Prepaid Items	(19,015)
Increase in Accounts Payable	18,453
Increase in Compensated Absences	542
(Decrease) Accrued Wages	(818)
(Decrease) in Intergovernmental Payable	<u>(49,188)</u>
Total Adjustments	<u>21,592</u>
Net Cash Used for Operating Activities	<u><u>\$ (238,774)</u></u>

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

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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

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 20 non-certified and 14 certificated full-time teaching personnel who provide services to 219 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.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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

C. Budgetary Process

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

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.

During fiscal year 2003, investments were limited to a business sweep account (repurchase agreement) and STAR Ohio. The Business Sweep account is reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for at June 30, 2003.

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.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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 2003 school year totaled \$276,739.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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, 2003, the carrying amount of the Academy' deposits was (\$7,755) and the bank balance was \$42,062. 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 include \$48,882 (reported amount and fair value), which are maintained in a Business Sweep Account (repurchase agreement), which are included in Category 3 and \$20,294 (reported amount and fair value) is maintained in a Star Ohio account, which is not categorized because it is not evidenced by securities that exist in physical or book entry form.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2003, 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	\$ 253,010
Leasehold Improvements	105,085
Subtotal	<u>358,095</u>
Less: Accumulated Depreciation	(148,012)
Net Fixed Assets	<u><u>\$ 210,083</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 period July 1, 2002 through June 30, 2003, the Academy contracted with the Cincinnati Insurance Company for property and general liability insurance.

Directors and officers liability is protected by the Cincinnati Insurance Company with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate and a \$5,000 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 (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$27,699, \$11,624 and \$6,290, respectively; 100 percent has been contributed for fiscal years 2003, 2002 and 2001.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3371 or by calling (614) 227-4090.

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 times 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 Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their 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 Plan 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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

The Academy's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$ 49,251, \$ 25,541, and \$ 20,610, respectively; 94 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

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.

The State Teachers Retirement Board has 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 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 June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$3,789 for fiscal year ended June 30, 2003.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$25,035 for fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002(the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. 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.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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 decision 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 its future State funding and on 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, 2003.

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. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Toledo Academy of Learning 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. For the fiscal year ended June 30, 2003, the results of this review showed the Academy was underpaid by \$11,610.

12. OPERATING LEASES

The Academy entered into a building lease agreement with NZB Limited Liability Company commencing September 1, 2001 through August 30, 2004. In April of 2003, the Academy acquired additional space with the same vendor. The base rent for the initial term is the sum of \$519,544 payable in equal

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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 additional space is leased to the Academy for an extra \$10,233 per month. The academy has the option to renew the lease for an additional three-year term. The Academy paid \$198,920 in rent during the fiscal year.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2003.

Fiscal Year Ending June 30,	Facility Rental
2004	\$ 310,183
2005	41,465
Total minimum payments	\$ 351,648

13. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2003, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES

Professional and Technical Services	\$ 83,843
Property Services	219,603
Communications	16,206
Contracted Craft or Trade Service	10,532
Pupil Transportation Services	9,940
Tuition	1,656
Travel Mileage/Meeting Expense	46,481
Total Purchased Services	\$ 388,261

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 2003 totaled \$21,051 which was paid in full during the year.

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;
- 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;

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

- 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. 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 \$25,750.

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**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, (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 10, 2004. 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.

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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

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 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. A reportable condition is described in the accompanying schedule of findings as item 2003-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated February 10, 2004.

This report is intended for the information and use of management and the governing board, 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

February 10, 2004

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Federal Grant Accounting and Reporting Citation

Ohio Department of Education Federal Fiscal Report Procedures requires that a final expenditure report (FER) be filed. Failure to submit a FER in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed. Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported.

The Academy reported liquidated Federal monies that were unable to be traced to the authorized project fund, function and special cost center in the Academy's accounting system. Support for the expenditures was verified only after significant reconstruction of the current records into the accounting system.

We recommend: 1) that project expenditures for Federal monies be posted to the authorized account codes; 2) the FER be filled out using the appropriately posted amounts from the Academy's accounting system; and 3) only expenditures with adequate detailed support be liquidated and posted to the accounting system.

FINDING NUMBER 2003-002

Ohio Revised Code § 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest. The following Board Member, Marcus Guynn authorized or used the authority of his office to secure public contract for his wife, Denise Guynn. Board Member, Marcus Guynn voted on and signed the personnel contract of his wife, Denise Guynn.

Board Members should abstain from either authorizing or using the influence of their office to secure authorization of public contract for themselves and/or family members. Board Members should also refrain from participating in, formal or informal, discussions in respect to the Academy if it would affect that person's personal, pecuniary interests. The remaining Board Members should be made aware of such potential conflicts of interest. The Auditor of State's Office is referring this issue to the Ohio Ethics Commission.

FINDING NUMBER 2003-003

Material Weakness

Fixed Asset Controls

The following control weaknesses over fixed assets exist:

- The Academy 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 Academy 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 Academy has not implemented procedures to perform periodic inventory of assets.

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.

FINDING NUMBER 2003-003
(Continued)

To maintain adequate safeguards over fixed assets, and to reduce the risk that the Academy'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 Academy's capitalization criteria. Further, addition and disposal forms should be completed by the Academy 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 listing.
- The Academy 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.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10148-001	Material Weakness of Fixed Asset Controls	No	Not corrected. Reissued as Finding Number 2003-003
2002-10148-002	Material Weakness of Purchasing Controls	Yes	

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**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 9, 2004**