



**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
One Government Center, Suite 500
Toledo, Ohio 43604-2533

To the Governing Board:

We have audited the accompanying basic financial statements of the Toledo Academy of Learning, Lucas County (the Academy), as of and for the year ended June 30, 2004, 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 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 Toledo Academy of Learning, as of June 30, 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.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2005, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

June 14, 2005

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of the Toledo Academy of Learning's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets increased \$300,755, which represents a 76.7 percent increase from 2003. This increase was due to an increase in intergovernmental receivables and cash due to an increase in federal grant monies
- Total assets increased \$347,995, which represents a 77.8 percent increase from 2003. This increase was due to an increase in intergovernmental receivables and cash due to an increase in federal grant monies
- Liabilities increased \$47,240, which represents an 85.3 percent increase from 2003. This increase was due to an increase in intergovernmental payables due to an increase in the Accrued SERS Surcharge, as well as to the addition of a capital lease.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 and fiscal year 2003:

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	\$ 579,718	\$ 225,278
Capital Assets, Net	215,702	222,147
<i>Total Assets</i>	<u>795,420</u>	<u>447,425</u>
Liabilities		
Current Liabilities	97,899	55,404
Non-Current Liabilities	4,745	-
<i>Total Liabilities</i>	<u>102,644</u>	<u>55,404</u>
Net Assets		
Invested in Capital Assets	198,893	222,147
Unrestricted	493,883	169,874
<i>Total Net Assets</i>	<u>\$ 692,776</u>	<u>\$ 392,021</u>

Total assets increased \$347,995. This increase was primarily due to an increase in intergovernmental receivables and cash due to an increase in federal and state grant monies. Equity in pooled cash and cash equivalents increased by \$219,753 from 2003. Intergovernmental Receivables increased by \$118,700. This increase was due to grant monies. A portion of these grants will not be received until 2005. Capital Assets, net of depreciation decreased by \$6,445.

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Foundation Payments	\$ 1,633,373	\$ 1,078,438
Disadvantaged Pupil Impact Aid	168,462	165,159
Special Education	58,176	53,345
Classroom Fees	524	1,525
Food Services	1,536	5,305
Extracurricular Activities	2,341	1,242
Other	15,752	10,893

(Continued)

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

(Table 2) (Continued)
Change in Net Assets

	2004	2003
Non-Operating Revenues:		
Federal Grants	486,349	265,541
State Grants	200,289	11,198
Contributions and Donations	-	19
Interest	1,056	1,884
<i>Total Revenues</i>	<u>2,567,858</u>	<u>1,594,549</u>
Operating Expenses		
Salaries	1,023,425	718,155
Fringe Benefits	385,688	231,230
Purchased Services	598,857	388,261
Materials and Supplies	127,352	139,020
Depreciation	86,140	71,618
Capital Outlay	28,755	5,035
Other Expenses	16,886	22,954
<i>Total Expenses</i>	<u>2,267,103</u>	<u>1,576,273</u>
<i>Increase in Net Assets</i>	<u>\$ 300,755</u>	<u>\$ 18,276</u>

There was an increase in revenues of \$973,309 and an increase in expenses of \$690,830 from 2003. Of the increase in revenues, the foundation payments increased by \$554,935, federal grants increased by \$220,808, and state grants increased by \$189,091.

The expense for salaries increased by \$305,270 and the expense for fringe benefits increased by \$154,458 from 2003. This was primarily due to an increase in staff, as well as an increase in salaries, during fiscal year 2004. Purchased services expense increased by \$210,596 from 2003. Due to the increase in federal and state grant revenues, the Academy was able to provide more professional development seminars for the staff, as well as contract out with different groups to provide services to the students, in accordance with the grant guidelines. Depreciation expense increased by \$14,522.

Capital Assets

At the end of fiscal year 2004 the Academy had \$203,638, invested in furniture, equipment, and leasehold improvements, which represented a decrease of \$6,445 from 2003. Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)
Capital Assets at June 30, 2004
(Net of Depreciation)

	2004	2003
Furniture and Equipment	\$ 134,898	\$ 137,811
Leasehold Improvements	68,740	72,272
Totals	<u>\$ 203,638</u>	<u>\$ 210,083</u>

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

For more information on capital assets see Note 6 to the basic financial statements.

Current Financial Issues

The Academy's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. All of the Academy's financial abilities will be needed to meet the challenges of the future.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Margie Blackmon, Director at Toledo Academy of Learning, 301 Collingwood Blvd., Toledo, Ohio 43602 or e-mail at taol01@hotmail.com.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 281,174
Accounts Receivable	571
Intergovernmental Receivables	255,369
Prepaid Items	42,604
<i>Total Current Assets</i>	579,718

Non-Current Assets:

Security Deposits	12,064
Capital Assets:	
Depreciable Capital Assets, Net	203,638
<i>Total Non-Current Assets</i>	215,702

<i>Total Assets</i>	795,420
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Liabilities

Current Liabilities:

Accounts Payable	7,973
Accrued Wages and Benefits	5,168
Intergovernmental Payable	84,758
<i>Total Current Liabilities</i>	97,899

Non-Current Liabilities

Due Within One Year	1,809
Due In More Than One Year	2,936
<i>Total Non-Current Liabilities</i>	4,745

<i>Total Liabilities</i>	102,644
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Net Assets

Invested in Capital Assets, Net of Related Debt	198,893
Restricted for Other Purposes	1,190
Unrestricted	492,693
<i>Total Net Assets</i>	\$ 692,776

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

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

Operating Revenues	
Foundation Payments	\$ 1,633,373
Disadvantaged Pupil Impact Aid	168,462
Special Education	58,176
Food Services	1,536
Classroom Fees	524
Extracurricular Activities	2,341
Other Revenues	<u>15,752</u>
<i>Total Operating Revenues</i>	<u>1,880,164</u>
Operating Expenses	
Salaries	1,023,425
Fringe Benefits	385,688
Purchased Services	598,857
Materials and Supplies	127,352
Depreciation	86,140
Other	16,886
Capital Outlay	<u>28,755</u>
<i>Total Operating Expenses</i>	<u>2,267,103</u>
<i>Operating Loss</i>	<u>(386,939)</u>
Non-Operating Revenues and Expenses	
Operating Grants - State	200,289
Operating Grants - Federal	486,349
Interest	<u>1,056</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>687,694</u>
<i>Change in Net Assets</i>	300,755
<i>Net Assets Beginning of Year</i>	<u>392,021</u>
<i>Net Assets End of Year</i>	<u><u>\$ 692,776</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents:

<u>Cash Flows from Operating Activities:</u>	
Cash Received from State of Ohio	\$ 1,866,039
Cash Received from Classroom Fees	524
Cash Received from Other Operating Sources	19,283
Cash Payments to Suppliers for Goods and Services	(791,248)
Cash Payments to Employees for Services	(1,023,648)
Cash Payments for Employee Benefits	<u>(340,496)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(269,546)</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received - State	37,745
Operating Grants Received - Federal	<u>530,193</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>567,938</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	<u>(79,695)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(79,695)</u>
 <u>Cash Flows from Investing Activities:</u>	
Cash Received from Interest on Investments	<u>1,056</u>
<i>Net Cash Provided by Investing Activities</i>	<u>1,056</u>
<i>Net Increase in Cash and Cash Equivalents</i>	219,753
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>61,421</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 281,174</u></u>

(Continued)

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Operating Loss \$ (386,939)

**Adjustments to Reconcile Operating Income to
Net Cash Used for Operating Activities**

Depreciation	86,140
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(571)
Increase in Prepaid Items	(15,416)
Decrease in Accounts Payable	(27,204)
Increase in Accrued Wages and Benefits	2,468
Increase in Capital Leases Payable	4,745
Increase in Intergovernmental Payable	67,773
Decrease in Compensated Absences	(542)

Total Adjustments 117,393

Net Cash Used for Operating Activities \$ (269,546)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Toledo Academy of Learning (the 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 10).

The Academy operates under the direction of a six-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 18 non-certified and 24 certificated full-time teaching personnel who provide services to 271 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) 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 (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, 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

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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.

Expenses are recognized at the time they are incurred.

D. 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 contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

E. 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 the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the Statement of Net Assets, investments with original maturities of three months or less, at the time they are purchased by the Academy, are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During fiscal year 2004, investments were limited to STAR Ohio. 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 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 on June 30, 2004.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

F. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date 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.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold Improvements	5 years
Furniture and Equipment	5 years

G. Intergovernmental Revenues

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

I. Security Deposits

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The amount, totaling \$12,064, is held by the lessor.

J. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For 2004, the Academy has implemented GASB Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments".

GASB 34 creates new basic financial statements for reporting on the Academy's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

NOTE 4 – DEPOSITS

At fiscal year end, the carrying amount of the Academy's deposits was \$280,864, and the bank balance was \$333,970. Of the bank balance, \$149,709 was covered by federal depository insurance and \$184,261 was collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits.

Investments: The 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 total \$310 (fair value) which is maintained in a STAR Ohio account, which is not categorized because it is not evidenced by securities that exist in physical or book form.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of accounts and intergovernmental receivables follows:

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Receivables	Amounts
Accounts	\$ 571
Intergovernmental:	
FY '04 SB-2 DPIA	161,419
IDEA-B '04 - Special Ed.	17,109
Title I '04 - Schoolwide	62,610
FY '04 DPIA - Parity Aid	1,125
Fed Reimbursement - May	13,106
<i>Total Intergovernmental Receivables</i>	<i>\$ 255,369</i>
Total Receivables	\$ 255,940

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Restated Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture and Equipment	\$ 253,010	\$ 59,614	\$ -	\$ 312,624
Leasehold Improvements	105,085	20,081	-	125,166
Total Capital Assets	358,095	79,695	-	437,790
Less Accumulated Depreciation:				
Furniture and Equipment	(115,199)	(62,527)	-	(177,726)
Leasehold Improvements	(32,813)	(23,613)	-	(56,426)
Total Accumulated Depreciation	(148,012)	(86,140)	-	(234,152)
Total Capital Assets Being Depreciated, Net	\$ 210,083	\$ (6,445)	\$ -	\$ 203,638

NOTE 7 - 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. During fiscal year 2004, the Academy contracted with Cincinnati Insurance Company for general liability and property insurance and educational errors and omissions insurance.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Coverages are as follows:

Commercial Property (\$1,000 deductible)	\$ 940,000
Commercial General Liability per Occurrence	1,000,000
Commercial General Liability Aggregate	1,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Teacher's Professional Liability per Occurrence	1,000,000
Teacher's Professional Liability Aggregate	1,000,000

The Academy owns no real estate, but leases a facility located at 310 Collingwood Blvd., Toledo, Ohio (See Note 13).

B. Workers' Compensation

The Academy pays the State Workers' 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.

NOTE 8 - 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 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 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 2004, 9.09 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, 2004, 2003, and 2002 were \$33,364, \$27,699, and \$11,624, respectively; 99.03 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003 and 2002. \$499 represents the unpaid contribution for fiscal year 2004. The balance outstanding is reflected as an intergovernmental payable.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

B. State Teachers Retirement System of Ohio

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 St., 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, 2004, 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.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$85,359, \$49,251, and \$25,541, respectively; 67.42 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003 and 2002.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$6,566 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$60,392.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 10 – FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. The amount paid to the Fiscal Agent for fiscal year 2004 totaled \$42,663 in administrative fees and \$9,388 in sponsorship fees and liabilities totaling \$8,410 were accrued for the year ended June 30, 2004.

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

- Maintain custody of all funds received by the Academy 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 Academy;

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

- Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy 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 Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Director of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 11 – PURCHASED SERVICES

For the period ended June 30, 2004, purchased service expenses were payments for services rendered as follows:

Professional and Technical Services	\$ 110,546
Property Services	321,329
Travel Mileage/Meeting Expense	43,485
Communications	17,403
Utilities	2,679
Contracted Craft or Trade Services	91,105
Other Purchased Services	12,310
Total Purchased Services	<u><u>\$ 598,857</u></u>

NOTE 12 – OPERATING LEASES

The Academy entered into a building lease agreement with NZB Limited Liability Company commencing September 1, 2001 through August 30, 2004, which was subsequently renewed for the period of September 1, 2004 through August 31, 2009. 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 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. Total payments made for fiscal year 2004 on this agreement was \$310,183.

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

<u>Year Ending June 30,</u>	<u>Facility Rental</u>
2005	<u><u>\$ 25,849</u></u>

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 – CAPITALIZED LEASE – LESSEE DISCLOSURE

In August of 2003, the Academy entered into a capitalized lease for an upgrade to their security system. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date. Payments due totaled \$3,853 for the year; the Academy made payments totaling \$4,734. The overpayment will be deducted from the amount due in FY 2005.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending, June 30,	
2005	\$ 2,676
2006	3,261
Total	5,937
Less: amount representing interest	(1,192)
Present value of minimum lease payments	\$ 4,745

Long-Term Debt	Balance 07/01/03	Additions	Reductions	Balance 6/30/04	Amounts Due in One Year
Capital Lease Obligations	\$ -	\$ 8,160	\$ 3,415	\$ 4,745	\$ 1,809

NOTE 14 – 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 Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 15 - 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 Academy. 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, 2004.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2004, the results of this review resulted in a decrease of \$8,960. This amount was recorded as a payable on the financial statements. This amount will be deducted from the Academy's foundation settlement payment beginning in February 2005 until the balance is paid in full.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 16 – RELATED PARTY

The Academy's Governing Board entered into an employment contract with the Assistant Director. The Assistant Director's spouse is a member of the Governing Board, but abstains from voting on the Assistant Director's contract. Total payments to the Assistant Director during the audit period totaled \$26,523.

NOTE 17 – SUBSEQUENT EVENT

Operating Leases

On September 1, 2004, the Academy renegotiated an operating lease, for the period September 1, 2004 through August 30, 2009, with NZB Limited Liability Company, to lease space to house the Academy, in the following amounts, due on the first day of each month:

<u>Time Period</u>	<u>Monthly Installment</u>
September 1, 2004 – August 31, 2006	\$ 31,432.10
September 1, 2006 – August 31, 2008	32,319.46
September 1, 2008 – August 31, 2009	33,206.81

The lessor holds a security deposit in the amount of \$12,064.

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**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR JUNE 30, 2004

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Disburse- ments
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<u>Nutrition Cluster:</u>				
School Breakfast Program	05PU-03/04	10.553	\$ 23,930	\$ 23,930
National School Lunch Program	LLP1-03/04	10.555	980	980
National School Lunch Program	LLP4-03/04	10.555	83,398	83,398
Total Nutrition Cluster			<u>108,308</u>	<u>108,308</u>
Total U.S. Department of Agriculture			<u>108,308</u>	<u>108,308</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1S1 2003	84.010	100,842	106,784
	C1S1 2004	84.010	255,947	260,040
Total Title I Grants			<u>356,789</u>	<u>366,824</u>
Special Education Grants to States	6BSF 2003	84.027	(41)	-
	6BSF 2004	84.027	17,419	32,069
Total Special Education Grants to States			<u>17,378</u>	<u>32,069</u>
Safe and Drug - Free Schools and Communities State Grants	DRS1 2003	84.186	1,465	-
	DRS1 2004	84.186	2,643	2,643
Total Safe and Drug-Free Grants			<u>4,108</u>	<u>2,643</u>
Charter Schools	CHS1 03/04	84.282	(1,616)	-
Innovative Education Program Strategies	C2S1 2003	84.298	1,257	1,456
	C2S1 2004	84.298	1,666	1,666
Total Innovative Education Program Strategies			<u>2,923</u>	<u>3,122</u>
Education Technology State Grants	TJS1 2003	84.318	3,225	-
	TJS1 2004	84.318	8,436	8,436
Total Education Technology State Grants			<u>11,661</u>	<u>8,436</u>
Improving Teacher Quality State Grant	TRS1 2003	84.367	7,557	3,481
	TRS1 2004	84.367	23,084	23,084
			<u>30,641</u>	<u>26,565</u>
Total U.S. Department of Education			<u>421,884</u>	<u>439,659</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 530,192</u>	<u>\$ 547,967</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the Academy's Federal Award Programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**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***

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

To the Governing Board:

We have audited the basic financial statements of the Toledo Academy of Learning, Lucas County, (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated June 14, 2005, in which we noted that the Academy adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

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. 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 material weaknesses. We consider reportable condition 2004-001 listed above to be a material weakness. In a separate letter to the Academy's management dated June 14, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially effect 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the Academy, Sponsor, federal awarding agencies, and pass-through entities. It is not intended for 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

June 14, 2005



**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, (the Academy), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that applies to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, 2004.

Internal Control over Compliance

The Academy's management 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 directly and materially affect a major federal program 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 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of management, the Academy, Sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 14, 2005

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004

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):	Title I Schoolwide- CFDA #84.010
<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 2004-001

The following control weaknesses over capital assets exist:

- The Academy has not developed a capital asset accounting system which maintains total capital 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.

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

**FINDING NUMBER 2004-001
(Continued)**

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

- The Academy develop and implement procedures to be performed throughout the year, for the recording and updating of capital 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, function assigned to and any other supporting documentation creating a master fixed listing.
- The Academy should compare the assets in each location, per the annual physical inventory, 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.

3. FINDINGS FOR FEDERAL AWARDS

None.

**TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Federal Grant Accounting and Reporting	Yes	
2003-002	Board member authorized/used the authority of his office to secure public contract for his wife	Yes	
2003-003	Material Weakness – Fixed Asset Controls	No	Not corrected. Reissued as Finding Number 2004-001.



**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

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
JULY 14, 2005**