Toledo Academy of Learning

Lucas County

Single Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.
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Mary Taylor, CPA
Auditor of State

Members of the Board
Toledo Academy of Learning
301 Collingwood Blvd.
Toledo, Ohio 43604

We have reviewed the *Independent Auditor's Report* of the Toledo Academy of Learning, Lucas County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Toledo Academy of Learning is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 15, 2008

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Toledo Academy of Learning
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For the Fiscal Year Ended June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Toledo Academy of Learning
301 Collingwood Blvd.
Toledo, Ohio 43604

We have audited the accompanying financial statements of the business-type activities of the Toledo Academy of Learning, Lucas County, Ohio, (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express 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 business-type activities of the Academy, as of June 30, 2007, and the changes in financial position and cash flows thereof 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 29, 2008 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Toledo Academy of Learning
Independent Auditor's Report
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balestra, Harr & Scherer

Balestra, Harr & Scherer CPAs, Inc.
February 29, 2008

The discussion and analysis of Toledo Academy of Learning's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. 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 the 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 reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- Total net assets at year end were $(508,848) compared with $38,061 of total net assets reported for the prior year.
- The total assets of the Academy decreased by $76,867 over 2006 primarily due to recording prepaid items in the prior year which were not prepaid for the current year.
- The $470,042 increase in total liabilities is related to the Academy owing $402,900 on a line of credit at year end compared which it did not owe the year before and increases in accounts payable.
- In fiscal year 2007, total revenues increased $329,874 (9.6 percent) and expenses increased $362,367 (9.2 percent) over those reported for the prior year. The majority of the increase in revenue is associated with the additional state foundation money the Academy received during 2007 of $314,835 due to higher student enrollment. Increases in expenses are due to wage increases, ever increasing cost of employee benefits, rental of additional instructional space for fiscal year 2007, additional purchased services, and interest payments made on the line of credit utilized during the fiscal year.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the 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.

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net assets for fiscal years 2007 and 2006.

TABLE 1
NET ASSETS

	2007	Restated 2006
Assets:		
Current and other assets	$ 188,203	$ 200,947
Capital assets, net	87,849	151,972
Total Assets	276,052	352,919
Liabilities:		
Current liabilities	784,900	314,858
Total Liabilities	784,900	314,858
Net Assets:		
Invested in capital assets	87,849	151,972
Restricted	9,536	-
Unrestricted (Deficit)	(606,233)	(113,911)
Total Net Assets	$(508,848)	$ 38,061

At June 30, 2007 the Academy reported net assets of $(508,848). As $87,849 was reported as net assets invested in capital assets and another $9,536 was restricted for various state and federal educational program grants, the unrestricted net asset deficit reported at year end was $(606,233) compared to the $(113,911) reported at the end of fiscal year 2006. The utilization of a line of credit during the year as well as the increase in the liability reported for accrued wages contributed significantly to the decrease in unrestricted net assets during the fiscal year.

The $76,867 decrease in total assets of the Academy was related to prepaid items reported in the prior year were not prepaid during the current year as well as depreciation expense exceeding capital asset additions for the current year by $64,123.

As previously mentioned, the $470,042 increase in liabilities during the year was associated with the Academy's utilization of a line of credit with a local bank as well as increases in accounts payable. reported at year end. These two items combined account for $520,151 of the increase.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2007 and 2006, as well as revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS

	2007	Restated 2006
Operating Revenues:		
Foundation payments	$ 2,866,636	$ 2,551,801
Food service revenues	846	2,667
Other operating revenues	3,756	13,674
Non Operating Revenues:		
Federal and state grants	880,644	848,865
Contributions and donations	-	3,404
Interest earnings	5,695	7,292
Total Revenues	3,757,577	3,427,703
Operating Expenses:		
Salaries	1,956,731	1,971,182
Fringe Benefits	661,271	591,415
Building rental	454,376	347,131
Other purchased services	822,324	677,859
Materials and supplies	278,769	242,152
Depreciation	69,406	95,339
Other expenses	27,881	16,716
Non Operating Expenses:		
Interest and fiscal charges	33,728	325
Total Expenses	4,304,486	3,942,119
Change in net assets	(546,909)	(514,416)
Net assets, beginning of year	38,061	552,477
Net Assets, end of year	$ (508,848)	$ 38,061

Total revenues of the Academy reported for fiscal year 2007 increased by $329,874 over those reported for the prior fiscal year. Foundation revenues increased by $314,835 over the prior year due to an increased number of students enrolled at the Academy during the fiscal year. State foundation payments are based on a per pupil allocation of aid, therefore, the greater the number of students enrolled, the higher the state foundation payments.

However, the increase in total revenues was surpassed by the increase in expenses reported for the year. Total expenses reported for the current fiscal year were 9.2 percent ($362,367) more than those reported for the prior fiscal year. Increases in the cost of personnel and employee benefits account for some of this increase. However, with additional students comes the need for additional instructional space. Therefore, the Academy entered into a new operating lease during the fiscal year that would provide that additional instructional space which increased the expenses associated with building rentals by $107,245 or 30.9 percent over the amount reported for fiscal year 2006. Increases in professional and technical services utilized during the year increased the expenses associated with purchased services by $144,465 or 21.3 percent. Finally, the payment of interest expense on the line of credit utilized during the year totaled $33,728 during the year.

Capital Assets

The Academy maintains a capitalization threshold of $500. At June 30, 2007 the Academy had invested $575,265 in capital assets and reported $487,416 in related accumulated depreciation resulting in net capital assets of $87,849. During the year the Academy purchased $5,283 equipment and reported depreciation expense of $69,406. See note 5 to the basic financial statements for additional details on the Academy's capital assets.

Debt Activity

At June30, 2007 the Academy owed $402,900 against a line of credit it has at a local financial institution. Draws of $502,900 were made during the year against this line of credit with repayments of $100,000 being made. The remaining $402,900 of outstanding principal is reported as a liability of the Academy as of June 30, 2007. See note 9 to the basic financial statements for additional details on the Academy's debt.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Toledo Academy of Learning and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to:

Toledo Academy of Learning
Attn: Treasurer
301 Collingwood Blvd
Toledo, Ohio 43604

TOLEDO ACADEMY OF LEARNING
Statement of Net Assets
June 30, 2007

Assets	
Current assets:	
Cash and cash equivalents	$ 106,594
Intergovernmental receivable	69,545
Total current assets	176,139
Noncurrent assets:	
Security deposit	12,064
Capital assets (net of accumulated depreciation)	87,849
Total noncurrent assets	99,913
Total assets	276,052
Liabilities	
Current liabilities:	
Accounts payable	146,983
Accrued wages payable	202,198
Intergovernmental payable	32,819
Note payable	402,900
Total liabilities	784,900
Net assets	
Invested in capital assets	87,849
Restricted	9,536
Unrestricted	(606,233)
Total net assets	$ (508,848)

See accompanying notes to the financial statements.

TOLEDO ACADEMY OF LEARNING

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2007

Operating revenues:	
Foundation payments	$ 2,866,636
Food service receipts	846
Miscellaneous operating revenue	3,756
Total operating revenues	2,871,238
Operating expenses:	
Salaries	1,956,731
Fringe benefits	661,271
Building rental	454,376
Other purchased services	822,324
Materials and supplies	278,769
Depreciation	69,406
Other	27,881
Total operating expenses	4,270,758
Operating loss	(1,399,520)
Non-operating revenues and (expenses):	
Federal grant revenues	864,205
State grant revenues	16,439
Interest earnings	5,695
Interest and fiscal charges	(33,728)
Total non-operating revenues (expenses)	852,611
Change in net assets	(546,909)
Net assets at beginning of year, as restated	38,061
Net assets at end of year	$ (508,848)

See accompanying notes to the basic financial statements.

TOLEDO ACADEMY OF LEARNING

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash flows from operating activities:	
Cash received from State of Ohio	$ 2,822,489
Cash payments to suppliers for goods and services	(1,388,863)
Cash payments to employees for services and benefits	(2,627,540)
Cash received from other operating sources	8,039
Net cash used for operating activities	(1,185,875)
Cash flows from noncapital financing activities:	
Federal operating grants	900,072
State operating grants	16,236
Cash received on line of credit	502,900
Cash payments for line of credit principal	(100,000)
Cash payments for line of credit interest	(33,728)
Net cash provided by noncapital financing activities	1,285,480
Cash flows from capital and related financing activities:	
Cash payments for capital acquisitions	(2,553)
Net cash used for capital and related financing activities	(2,553)
Cash flows from investing activities:	
Interest earnings	5,695
Net cash provided by investing activities	5,695
Net Increase in Cash and Cash Equivalents	102,747
Cash and Cash Equivalents, Beginning of Year	3,847
Cash and Cash Equivalents, End of Year	$ 106,594

(Continued)

See accompanying notes to the basic financial statements.

TOLEDO ACADEMY OF LEARNING

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2007

(Continued)

Reconciliation of operating loss to net cash used for for operating activities

Operating loss	$	(1,399,520)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		69,406
Changes in assets and liabilities:		
Decrease in accounts receivable		3,437
Increase in intergovernmental receivable		(3,576)
Decrease in prepaid items		79,966
Increase in accounts payable		114,521
Decrease in accrued wages payable		(13,449)
Decrease in intergovernmental payable		(36,660)
Total Adjustments		213,645
Net cash used for operating activities	$	(1,185,875)

Summary of Non-Cash Capital and Related Financing Activities:

$2,730 of the capital assets additions for the fiscal year were included within the accounts payable liability reported at June 30, 2007.

See accompanying notes to the basic financial statements.

1. Description of the Academy 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 grade twelve 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 Academy.

The Academy operates under a current sponsor contract with the Richland Academy of the Arts (the Sponsor). 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 Academy has also elected to contract with Mangen & Associates to provide financial services and to serve as the Chief Financial Office of the Toledo Academy of Learning.

The Academy operates under the direction of a seven-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 Body controls the Academy which is staffed by 23 non-certified and 39 certificated full-time teaching personnel who provide services to 410 students.

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, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 manner similar to private business enterprises and the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes.

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, including grants, entitlements, and donations, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements including 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.

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 Rev. Code Section 5705, unless specifically provided in the school's contract with 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.

D. Cash and cash equivalents

All monies received by the Academy are 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. During the year ended June 30, 2007, the Academy only had deposits.

E. Estimates

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

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of $500. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and equipment, as well as leasehold improvements, is computed using the straight-line method over estimated useful lives of five years.

G. Intergovernmental revenues

The Academy currently participates in the State Foundation Program. These funds are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants 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. Accrued liabilities payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2007, including:

Wages payable – a liability has been recognized at June 30, 2007 for salary payments made after year-end that were for services rendered in fiscal year 2007.

Intergovernmental payable – payment for the employer's share of the retirement contribution $28,308, workers' compensation $1,579, and Medicaid $2,932 associated with services rendered during fiscal year 2007, but were not paid until the subsequent fiscal year.

I. Federal tax exemption status

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

J. 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.

K. Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Operating revenues and expenses

Operating revenues are those revenues that are generated directly from 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.

3. Deposits and Investments:

A. Deposits

At June 30, 2007, the Academy reported a bank balance of $9,720. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure", none of the bank balance was exposed to custodial risk, as discussed below.

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with either the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

B. Investments

At June 30, 2007 the Academy's investments were limited to a Business Sweep Account (repurchase agreement) totaling $113,671 (reported amount and fair value), all was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy has no investment policy dealing with investment custodial credit risk.

4. Intergovernmental Receivables:

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Significant intergovernmental receivable components include 21st Century grant $21,217, Title VI-B grant $13,312, Title I grant $6,058, and School Breakfast and Lunch programs $21,016. All other intergovernmental receivable sources totaled $7,942, including $3,576 of additional foundation payments owed to the Academy as a result of the State's audit of the student enrollment data for fiscal year 2007.

5. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets:				
Leasehold Improvement	$ 127,370	$ -	$ -	$ 127,370
Equipment	442,612	5,283	-	447,895
Total	569,982	5,283	-	575,265
Depreciation:				
Leasehold Improvement	107,373	15,099	-	122,472
Equipment	310,637	54,307	-	364,944
Total	418,010	69,406	-	487,416
Net Capital Assets	**$ 151,972**	**$ (64,123)**	**$ -**	**$ 87,849**

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. During fiscal year 2007, the Academy contracted with Cincinnati Insurance Company for general liability and property insurance and educational errors and omissions insurance. Coverages are as follows:

Commercial Property ($1,000 deductible)	$ 2,160,000
Commercial General Liability per Occurrence	1,000,000
Commercial General Liability Aggregate	3,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Teacher's Professional Liability per Occurrence	1,000,000
Teacher's Professional Liability Aggregate	3,000,000

The Academy owns no real estate, but leases facilities located at 301 Collingwood Boulevard and 3001 Hill Avenue in Toledo, Ohio (see Note 10). Settlements have not exceeded coverage in any of the past three fiscal years. Coverage has not been significantly reduced from the prior year.

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.

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 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and 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 2007, 10.68 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, 2007, 2006 and 2005 were $69,606, $69,061 and $54,333, respectively; 100 percent has been contributed for each year.

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 St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC 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 of 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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006 and 2005 were $166,140 $115,001 and $147,296, respectively; 100 percent has been contributed for each fiscal year.

8. 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 partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $12,780 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007 the balance in the Fund was $4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were $265.5 million and STRS Ohio had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $22,500.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2007 were $127,615,614. At June 30, 2007, SERS had net assets available for payment of health care benefits of $386.4 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claims costs. SERS has 55,818 participants eligible to receive health care benefits.

9. Short-Term Debt:

During the fiscal year, the Academy entered into a short-term debt agreement with Richland Bank for a line of credit to finance current operations. Draws of $502,900 were made against the line of credit during the year and with repayments of $100,000. The remaining $402,900 in principal on the line of credit, plus interest, is anticipated to be repaid by the Academy in fiscal year 2008. The line of credit bears a variable interest rate which was 10.15 percent as of June 30, 2007. Interest payments are due monthly.

10. Operating Leases:

The Academy is a party to two operating leases for facilities the Academy uses for instructional and administrative space. These two lease agreements are described below:

- Five-year lease agreement with MFB Hamilton Properties Ltd. for building space located at 301 Collingwood Avenue and 511 Hamilton Street, which commenced on September 1, 2004 and terminates on August 31, 2009. Rental payments escalate throughout the terms of the lease agreement. Rental payments made to MFB Hamilton Properties Ltd. during the year totaled $363,984.

- Five-year lease agreement with Byrne Road Investment Ltd. for building space located at 3001 Hill Avenue, which commenced on August 1, 2006 and terminates on July 31, 2011. Rental payments escalate throughout the terms of the lease agreement. Rental payments made to Byrne Road Investment Ltd. during the year totaled $25,192.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2007:

Fiscal Year	MFB Hamilton	Byrne Road
2008	$ 387,834	$ 177,208
2009	396,707	186,458
2010	66,414	187,500
2011	-	198,958
2012	-	16,667
Total	$ 850,955	$ 766,791

11. Restricted Net Assets:

At June 30, 2007 the Academy reported restricted net assets totaling $9,536. The nature of the restriction on these net assets is as follows:

State specific educational program grants	$ 4,166
Federal specific educational program grants	5,370
Total	$ 9,536

12. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and 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. A review conducted by the Ohio Department of Education determined the Academy was owed additional foundation payments for fiscal year 2007 in the amount of $3,576. This amount is included within intergovernmental receivables on the Academy's statement of net assets.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e. Charter) School program violates the State Constitution and state laws. On April 23, 2004, 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.

13. Purchased Services:

During the year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	$	509,928
Property Services		13,109
Travel Mileage/Meeting Expenses		22,982
Communications		27,771
Utilities		11,708
Contracted Craft or Trade		616
Tuition		1,233
Pupil Transportation		19,000
Other Purchased Services		215,977
Total Purchase Services	$	822,324

Mangen and Associates, LLC provided treasurer, financial management, CSADM/EMIS, and grant identification and application services for the Academy throughout the fiscal year. The amount paid for these fiscal services is stated above.

14. Restatement of Net Assets:

Beginning net assets required restatement due to an error in the calculation of accrued wages payable in prior years. This restatement had the following effect on beginning net assets:

Beginning Net Assets, as reported on June 30, 2006	$ 174,052
Restatement for accrued wages	(135,991)
Beginning Net Assets, as Restated	$ 38,061

Toledo Academy of Learning
Lucas County

Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
Passed through Ohio Department of Education:				
Nutrition Cluster				
School Breakfast Program	05PU	10.553	$ 44,890	$ 42,195
National School Lunch Program	LLP4	10.555	122,049	114,083
Total Nutrition Cluster			166,939	156,278
Total United States Department of Agriculture			166,939	156,278
UNITED STATES DEPARTMENT OF EDUCATION				
Passed through Ohio Department of Education				
Special Education - Grants to States	6BSF	84.027	101,847	113,526
Title I Grants to Local Educational Agencies	C1S1	84.010	354,297	360,403
Safe and Drug Free Schools and Communities - State Grants	DRS1	84.186	2,022	3,455
State Grants for Innovative Programs	C2S1	84.298	1,086	737
Education Technology State Grants	TJS1	84.318	51,339	39,000
Twenty-First Century Community Learning Centers	T1S1	84.287	172,080	180,567
Improving Teacher Quality State Grants	TRS1	84.367	44,589	22,741
Total United States Department of Education			727,260	720,429
Total Federal Financial Assistance			$ 894,199	$ 876,707

See Notes to the Schedule of Federal Awards Expenditures.

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures (the Schedule) summarizes activity of the Academy's federal awards programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Toledo Academy of Learning
301 Collingwood Blvd
Toledo, Ohio 43602

We have audited the accompanying financial statements of the business-type activities of the Toledo Academy of Learning, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated February 29, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. This item is identified in the accompanying schedule of findings and questioned costs as item 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Academy in a separate letter dated February 29, 2008.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
February 29, 2008

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
Toledo Academy of Learning
301 Collingwood Blvd.
Toledo, Ohio 43604

Compliance

We have audited the compliance of the Toledo Academy of Learning (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 are applicable to its major federal program for the year ended June 30, 2007. The Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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, 2007.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
February 29, 2008

TOLEDO ACADEMY OF LEARNING
For the Fiscal Year Ended 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant internal control conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010 Title I Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

TOLEDO ACADEMY OF LEARNING
For the Fiscal Year Ended June 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

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

Finding 2007-1

Significant Deficiency

Immaterial misstatements were identified during the course of the audit which were not prevented or detected by the Academy's internal controls over financial reporting. Misstatements were identified in the following areas:

- Misclassified food service revenues.
- Accrued wages payable (prior period balances).
- Unrecorded accounts payable.

Certain misstatements were corrected due to their nature. These corrections are reflected in the financial statements. Correction of other immaterial items was waived.

The Academy should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Client Response:

The Toledo Academy of Learning hired a new treasurer in March 2007. The new treasurer has implemented application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported. In addition, the treasurer intends to use internal M&A staff to prepare future GAAP financial statements instead of an outside accounting firm.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

Mary Taylor, CPA
Auditor of State

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
MAY 29, 2008

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