Alliance Academy of Toledo

Lucas County

Regular Audit

July 01, 2007 through June 30, 2008

Fiscal Year Audited Under GAGAS: 2008

bhs

Balestra, Harr & Scherer, CPAs, Inc.

528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639

Mary Taylor, CPA
Auditor of State

Governing Board
Alliance Academy of Toledo
4660 S. Hagadorn Road, Suite 500
East Lansing, Michigan 48823

We have reviewed the *Independent Auditor's Report* of the Alliance Academy of Toledo, Lucas County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Alliance Academy of Toledo is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 5, 2009

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Alliance Academy of Toledo
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For the Fiscal Year Ended June 30, 2008

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Ohio Society of Certified Public Accountants

Independent Auditor's Report

Alliance Academy of Toledo
Lucas County
1501 Monroe Street, 2nd Floor
Toledo, Ohio 43624

We have audited the accompanying financial statements of the business-type activities of the Alliance Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2008, 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 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 the 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.

Management has not considered the need to provide, nor do the footnotes include detailed accounting including the nature and costs of the services that the Leona Group (Management Company) provides to the Alliance Academy of Toledo as required by Ohio Revised Code 3314.02.4 described in Auditor of State Bulletin 2004-009 for management companies that provide services to a community school that amounts to more than twenty per cent of the annual gross revenues of the school. The Academy paid Leona Group $1,506,531. This represents 55% of total revenues for the Academy. We cannot reasonably determine detailed accounting including the nature and costs of the services that the Leona Group provided to the Alliance Academy of Toledo for the year ended June 30, 2008.

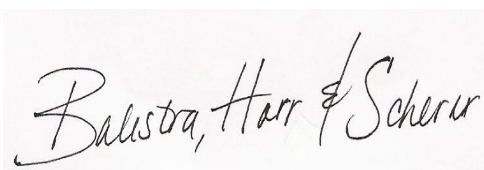
In our opinion, except as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Academy, as of June 30, 2008, and the respective changes in financial position and 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 June 29, 2009, 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 the 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 discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 14, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – an amendment of GASB statement No. 25 and No. 27,* GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues.*

As described in Note 16 the Academy's current sponsor, Buckeye Community Hope Foundation, will not renew the current contract with the Academy and the Academy was unable to attain another sponsor. The Academy and will not be in existence as of June 30, 2009.



Balestra, Harr & Scherer, CPAs, Inc.
June 29, 2009

The management's discussion and analysis of Alliance Academy of Toledo's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the academy's financial performance as a whole; readers should 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 its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, 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

- In total, net assets (deficit) increased $207,399, which represents a 46.2 percent increase in net assets from 2007.
- Total assets increased $204,861, which is a 63 percent increase from 2007. This was due primarily to additional receivables.
- Liabilities increased $32,594, which represents a 4.6 percent increase from 2007. The increase was due mainly to an increase in contracts payable due to the management company.

Using this Annual 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 (deficit), a statement of revenues, expenses, and changes in net assets (deficit), and a statement of cash flows.

Statement of Net Assets (Deficit)

The statement of net assets (deficit) answers the question, "How did we do financially during 2008?" 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 the account all revenues and expenses during the year, regardless of when cash is received or paid.

Table I provides a summary of the Academy's net assets for fiscal years 2008 and 2007:

TABLE I	Governmental Activities	
	June 30	
	2008	2007
Assets		
Current Assets	$ 316,660	$ 106,669
Non-Current Assets	212,777	217,907
Total assets	529,437	324,576
Liabilities		
Current Liabilities	636,056	559,709
Non-Current Liabilities	93,710	137,463
Total liabilities	729,766	697,172
Net Assets (Deficit)		
Invested in capital assets	105,887	67,264
Unrestricted	(306,216)	(441,506)
Restricted for Other Purposes		1,646
Total net assets (deficit)	$ (200,329)	$ (372,596)

Total assets for the Academy increased $207399, due primarily to an increase in intergovernmental receivables. Cash increased by $52,143. Intergovernmental receivables increased by $144,618 from 2007 due primarily to the timing of receipt of grant funding. Capital assets, net of depreciation, decreased $5,130.

Table 2 shows the changes in net assets (deficit) for fiscal years 2008 and 2007, as well as a listing of revenues and expenses.

TABLE 2	Governmental Activities	
	June 30	
	2008	2007
Operating Revenues		
Foundation Payments	$ 2,162,676	$ 2,167,793
Food Services	418	1,970
Other	79,673	223,660
Nonoperating Revenues		
Federal Grants	480,852	573,551
State Grants	27,469	54,591
Total revenue	2,751,088	3,021,565
Operating Expenses		
Salaries	0	1,590,788
Fringe Benefits	0	348,452
Purchased Services	2,365,888	857,848
Materials and Supplies	68,625	285,702
Depreciation (unallocated)	57,547	56,190
Other expenses	81,172	20,461
Nonoperating Expenses		
Interest	5,589	22,748
Total expenses	2,578,821	3,182,189
Increase (Decrease) in Net Assets (Deficit)	$ (172,267)	$ (160,624)

Net assets decreased $172,267. There was a decrease in revenue of $270,477 and a decrease in expenses of $341,445 from 2007. Of the decrease in revenues, federal and state grant revenue decreased $119,821. Salary expenses decreased significantly in 2008 due to a decrease in personnel necessitated by the school's financial condition.

Capital Assets

At the end of fiscal year 2008, the Academy had $199,597 invested in furniture, fixtures, and equipment and leasehold improvements (net of depreciation). Table 3 shows capital assets (net of depreciation) for fiscal years 2007 and 2008.

TABLE 3

	2008	2007
Furniture, fixtures and equipment	$ 190,049	$ 179,253
Leasehold Improvements	9,548	25,474
Totals	$ 199,597	$ 204,727

For more information on capital assets, see Note 5 to the basic financial statements.

Debt

At June 30, 2007 the Academy had $97,711 in outstanding debt, $43,128 of which is due within one year.

Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt

	2008	2007
Note Payable	$ -	$ 62,546
Long Term Installment Note	58,578	82,896
Capital Lease Payable	35,133	54,567
Total Outstanding Debt	$ 93,711	$ 200,009

For more information on debt, see Note 12 to the basic financial statements.

Current Financial Issues

Alliance Academy of Toledo (formerly Family Learning Center) was formed in 2000. During the 2007-2008 school year there were 290 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2008 amounted to $2,162,676.

Contacting the School's Financial Management

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of Alliance Academy of Toledo, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

Alliance Academy of Toledo
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 80,195
Intergovernmental Receivables	218,729
Prepaid Items	17,736
Total Current Assets	316,660
Non-Current Assets:	
Security Deposits	13,180
Depreciable Capital Assets, Net	199,597
Total Non-Current Assets	212,777
Total Assets	529,437
Liabilities	
Current Liabilities:	
Accounts Payable	323,894
Contracts Payable	298,054
Intergovernmental Payable	14,107
Total Current Liabilities	636,055
Non-Current Liabilities:	
Due Within One Year	43,128
Due In More Than One Year	50,583
Total Non-Current Liabilities	93,711
Total Liabilities	729,766
Net Assets	
Invested in Capital Assets, Net of Related Debt	105,887
Unrestricted	(306,216)
Total Net Assets	$ (200,329)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Alliance Academy of Toledo
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating Revenues	
Foundation Payments	$ 2,162,676
Food Services	418
Other Revenues	79,673
Total Operating Revenues	2,242,767
Operating Expenses	
Purchased Services	2,365,888
Materials and Supplies	68,625
Depreciation	57,547
Other	81,172
Total Operating Expenses	2,573,232
Operating Loss	(330,465)
Non-Operating Revenues and Expenses	
Federal Grants	480,852
State Grants	27,469
Interest and Fiscal Charges	(5,589)
Total Non-Operating Revenues and Expenses	502,732
Change in Net Assets	172,267
Net Assets Beginning of Year	(372,596)
Net Assets End of Year	$ (200,329)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Alliance Academy of Toledo
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 2,162,676
Cash Received for Food Services	418
Cash Received from Other Operating Revenues	79,673
Cash Payments to Suppliers for Goods and Services	(2,421,200)
Net Cash Used for Operating Activities	(178,433)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	402,545
State Grants Received	27,469
Net Cash Provided by Noncapital Financing Activities	430,014
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(52,418)
Proceeds from Notes	
Principal Payments	(141,431)
Interest Payments	(5,589)
Net Cash Used for Capital and Related Financing Activities	(199,438)
Net Increase in Cash and Cash Equivalents	52,143
Cash and Cash Equivalents at Beginning of Year	28,052
Cash and Cash Equivalents at End of Year	$ 80,195

(Continued)

Alliance Academy of Toledo
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$	(330,465)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation		57,547
Changes in Assets and Liabilities:		
(Increase) in Intergovernmental Receivable		(144,618)
(Increase) in Prepaid Items		(13,230)
Increase in Accounts Payable		56,720
(Decrease) in Accrued Wages Payable		(85,348)
Increase in Contracts Payable		298,054
(Decrease) in Compensated Absences		(965)
(Decrease) in Intergovernmental Payable		(15,804)
(Decrease) in Accrued Interest Payable		(324)
Total Adjustments		152,032
Net Cash Provided by Operating Activities	$	(178,433)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Alliance Academy of Toledo (the Academy) is a 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 serve students who are not thriving in a traditional setting, desire meaningful learning experiences and wish to regain a level of control over their educational experience. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, personal integrity and responsibility, and a willingness to exercise leadership in their educational and social interactions. Staff, students and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. The Academy's programs are currently available to students in grades K – 12. 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.

Beginning July 1, 2006, the Academy contracted with Buckeye Community Hope Foundation to become its sponsor. The initial term of the contract expires on June 30, 2009. 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 operates under the direction of a five 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 instructional/support facility staffed by thirteen non-certified personnel and twenty-two certificated teaching personnel who provide services to 290 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee. (See Note 14).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. 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 Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its proprietary activities. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

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

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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

The Academy is required to submit a five-year budget forecast with the Ohio Department of Education, c/o Superintendent of Public Instruction.

E. Cash and Cash Equivalents

All monies received by the Academy are maintained in a bank account in the Academy's name. Monies for the Academy are maintained in this account or temporarily used to purchase short-term investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008 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 fiscal year in which the services are consumed.

G. Capital Assets

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 values as of the date received. The Academy maintains a capitalization threshold of $1,000 for furniture and equipment, land, and buildings, or any one item costing under $1,000 alone but purchased in a group for over $2,500. Software costing more than $10,000 per application is also capitalized. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture, Fixtures and Equipment	7 years
EDP Equipment and Software	3 years
Non-EDP Equipment	6 years

H. Security Deposit

The Academy entered into a lease for the use of the building for the operation of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The deposit totaled $13,180 and is held by the lessor.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or 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.

J. 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. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

K. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, the Poverty Based Assistance Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met.

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.

3. DEPOSITS AND INVESTMENTS

At fiscal year-end June 30, 2008, the carrying amount of the Academy's deposits was $80,195 and the bank balance was $93,479. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2008, $93,479 was covered by the Federal Depository Insurance Corporation and was not exposed to custodial credit risk.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy will not be able to recover its deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Bank or at member banks of the federal reserve system, in the name of the respective depository and pledged as a poll of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial 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 either with 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 one hundred five percent of the deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, local revenue and refunds. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

Intergovernmental Receivables	Amounts
Miscellaneous Local	341
Vendor Refunds	1,366
Title I	137,033
Title IIA	4,425
Title IV	1,225
Title V	65
Special Ed Part B	13,555
National School Lunch Program	20,107
EMIS Subsidy	2,000
Due From STRS-SERS	38,612
Total Intergovernmental Receivables	$ 218,729

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	322,093	52,418	-	374,511
Leasehold Improvements	159,208		-	159,208
Total Capital Assets Being Depreciated	481,301	52,418	-	533,719
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(142,840)	(41,623)	-	(184,463)
Leasehold Improvements	(133,734)	(15,925)	-	(149,659)
Total Accumulated Depreciation	(276,574)	(57,548)	-	(334,122)
Capital Assets, Net of A/D	204,727	(5,130)	-	199,597

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 2008, the Academy contracted with Willis of Arizona, Inc. for general liability, property insurance and educational errors and omissions insurance.

Coverage is as follows:

Educational Errors and Omissions:	
Per occurrence	$10,000,000
Total per year	10,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	N/A

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2007.

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

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 administered by the School Employees Retirement Board. 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.

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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2008 were $13,101; 100 percent has been contributed for fiscal year 2008.

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 administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

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 multiplied by a percentage that varies based on years of service, or on an allowance based on a member's lifetime 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB Plan 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

7. DEFINED BENEFIT PENSION PLANS

B. State Teachers Retirement System of Ohio (Continued)

For the fiscal year ended June 30, 2008, 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. 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, 2008, 2007, and 2006 were $105,688, $156,108 and $170,717 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

8. POSTEMPLOYMENT BENEFITS

School Employee Retirement System

The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part b Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, OH 43215-3746.

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was $3,911.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal year ended June 30, 2008 was $3,911. 100 percent has been contributed for fiscal year 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of the covered payroll. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2008 were $618. 100 percent has been contributed for fiscal year 2008.

8. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System (Continued)

The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal year ended June 30, 2008 was $7,549. 100 percent has been contributed for fiscal year 2008.

9. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.

B. Ohio Department of Education Enrollment Review

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. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy owed the Ohio Department of Education $3,417.

10. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2008, purchased service expenses were payments for services rendered by various vendors, as follows:

Salaries	$ -
Fringe Benefits	-
Repairs and maintenance	37,424
Legal	45,063
Advertising	1,770
Buckeye Community Hope Foundation	43,956
The Leona Group, LLC.	1,506,531
Cleaning Services	52,368
Communications	764
Other professional services	301,956
Other rentals and leases	40,055
Building lease agreements	336,000
Total Purchased Services	$ 2,365,888

11. OPERATING LEASES

The Academy has entered into a lease for the period August 1, 2007 through July 31, 2008 with AFF Ohio, LLC, Inc. Payments made totaled $333,000 for the fiscal period. The Academy has the option to extend the lease for one year. The annual Base Rent for the extended term shall be $408,000.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2008.

Fiscal Year Ending June 30,	Facility Lease
2009	374,000
2010	34,000
Total minimum lease payments	$ 408,000

12. NOTES PAYABLE

On August 28, 2003 the Academy entered into a note, in the amount of $150,000. This note was used primarily for facility improvements. As of June 30, 2008, $58,578 was the current balance on the second note at an interest rate of 10.25. The loan matures on August 29, 2010, and is collateralized by all business assets.

Long Term Debt	Balance at 07/01/07	Additions	Reductions	Balance at 06/30/08	Amounts Due in One Year
Note Payable	$ 82,896	$ -	$ 24,318	$ 58,578	$ 29,211
Capital Lease Obligation	54,567	-	19,434	35,133	17,196
Total	$ 137,463	$ -	$ 43,752	$ 93,711	$ 46,407

12. NOTES PAYABLE (Continued)

The following is a schedule of the Academy's long-term notes payable requirements as of June 30, 2008:

Fiscal Year Ending June 30,	Principal	Interest
2009	$25,932	$3,279
2010	27,806	1,404
2011	4,840	43
Total	$58,578	$4,726

13. CAPITALIZED – LESSEE DISCLOSURE

The Academy entered into capital leases for the equipment. These leases meet the criteria of capital leases 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 leases have been recorded as capital assets at the present value of the future minimum lease payments as of the inception date. Payments made totaled $23,338 for the fiscal year ended June 30, 2008.

Fiscal Year Ending June 30,	Capital Leases
2009	$ 19,660
2010	14,499
2011	4,506
Minimum Lease Payments	38,665
Less amount representing Interest at the Academy's incremental Borrowing rate of interest	(3,533)
Present value of minimum lease payments	$ 35,132

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a twenty-three month contract, effective August 1, 2007 through June 30, 2009, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures and a year-end fee of 50% of the audited financial statement excess of revenues over expenses, if any. The amount paid to TLG for fiscal period 2008 totaled $396,837. Terms of the contracts require TLG to provide the following:

A. implementation and administration of the Educational Program;

B. management of all personnel functions, including professional development;

C. operation of the school building and the installation of technology integral to school design;

D. all aspects of the business administration of the Academy;

E. the provision of food service for the Academy; and

F. any other function necessary or expedient for the administration of the Academy.

Also, there are expenses that are billed to the Academy based on the actual costs incurred for the Academy by The Leona group, LLC. These expenses include rent, salaries of The Leona Group, LLC. employees working at the Academy, and other costs related to providing educational and administrative services.

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT(Continued)

At June 30, 2008, the Academy had payables to The Leona Group, LLC in the amount of $215,982. The following is a schedule of payables to The Leona Group, LLC:

	Amount
Management Fee	207,693
Miscellaneous	8,289
Total Expenses	$ 215,982

15. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2008, the Academy implemented GASB Statement No. 50, "Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27," GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GABS Statement No. 48 did not have an effect on the financial statement s of the Academy.

GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The application of these new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

16. SUBSEQUENT EVENTS/ CONTINUED EXISTANCE

On January 16, 2009, the Academy's sponsor, Buckeye Community Hope Foundation (BCHF), has informed the board members of the Alliance Academy of Toledo and the management company of the Academy, Leona Group, that BCHF will not be renewing the schools charter with the Foundation beyond June 30, 2009. The Academy will no longer be in existence as of June 30, 2009.

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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*

Members of the Board
Alliance Academy of Toledo
1501 Monroe Street, 2nd Floor
Toledo, Ohio 43624

We have audited the financial statements of the business type activities of the Alliance Academy of Toledo, Lucas County (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated June 29, 2009, in which we indicate that the Academy implemented GASB Statements No. 45 and No. 50 and wherein we noted the Academy's current sponsor, Buckeye Community Hope Foundation, will not renew the current contract with the Academy and the Academy was unable to attain another sponsor and will not be in existence as of June 30, 2009, and wherein the Academy failed to present the required note disclosure for their management company. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Academy'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 Academy's financial statements that is more than inconsequential will not prevented or detected by the Academy's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. This item is identified in the accompanying schedule of findings and responses as item 2008-001.

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 Academy'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 consider a significant deficiency described above to be a material weakness. This item is identified in the accompanying schedule of finding and responses as item 2008-001.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards.* This item is identified in the accompanying schedule of finding and responses as items 2008-002 and 003.

We noted certain non-compliance and other matters that we have reported to the Academy's management in a separate letter dated June 29, 2009.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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 and members of the Board 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.

June 29, 2009

Finding 2008-001

Material Weakness – Audit Adjustments

Material misstatements to the issued financial statements were identified by the Auditor which should have been prevented or detected by the Academy's internal controls over financial reporting. The material misstatements were identified in the following areas:

- Purchased Services
- Accounts Payable

The accompanying financial statements were adjusted to reflect correction of a material misstatement. The District should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Clients Response:

The journal entries will be recorded to correct the appropriate misstatements by the staff accountant of the management company. Purchased services were actually already recorded correctly in the ledger, but were classified as salaries and benefits on the financial statements. The accounts payable misstatement was an oversight from previous year transactions and will not occur in the future. Controls are in place to monitor and correct all transactions including financial statement review each month.

Finding 2008-002

Material Non-compliance – Filing of Annual Financial Report

Ohio Revised Code Section 117.38 states that GAAP-basis entities must file annual reports within 150 days of fiscal year end. Any public office not filing the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. The AOS may waive these penalties, upon the filing of the past due financial report. The Academy failed to file its annual financial report within the 150 day time frame. The Academy should implement procedures to ensure that annual financial reports are prepared as required.

Client Response:

The annual report will be filed within 150 days of fiscal year end in the future.

Finding 2008-003

Material Non-compliance – Inadequate Footnote Disclosure

Ohio Revised Code Section 3314.02.4 states that a management company that provides services to a community school that amounts to more than twenty per cent of the annual gross revenues of the school shall provide a detailed accounting including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the course of the regular financial audit of the community school. The Alliance Academy of Toledo failed to provide the footnote described by Ohio Revised Code 3314.02.4.

Client Response:

The client chose not to respond.

ALLICANCE ACADEMY OF TOLEDO
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	A significant deficiency regarding immaterial misstatements in the areas if intergovernmental receivables and compensated absences	No	Reissued as Finding 2008-001 as Material Weakness due to adjustments being material
2007-002	A significant deficiency regarding missing supporting documentation for disbursements	Yes	
2007-003	A significant deficiency regarding preparation of annual financial report	Yes	
2007-004	A significant deficiency regarding support for compensated absences	Yes	
2007-005	Material non-compliance regarding filing of annual financial report	No	Reissued as Finding 2008-002

Mary Taylor, CPA
Auditor of State

ALLIANCE ACADEMY OF TOLEDO

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
AUGUST 18, 2009

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