TOLEDO ACADEMY OF LEARNING
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

TOLEDO ACADEMY OF LEARNING
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the Balance Sheet of Toledo Academy of Learning (the School) as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year ended June 30, 2001. These financial statements are the responsibility of the School'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 School, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2002 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

March 14, 2002

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TOLEDO ACADEMY OF LEARNING
BALANCE SHEET
AS OF JUNE 30, 2001

Assets

Current Assets	
Cash and Cash Equivalents with Fiscal Agent	$86,143
Prepaid Items	1,172
Total Current Assets	87,315
Non-Current Assets	
Fixed Assets (Net of Accumulated Depreciation)	83,960
Total Assets	$171,275

Liabilities and Equity

Current Liabilities	
Accounts Payable	$19,140
Accrued Wages	3,274
Intergovernmental Payable	42,252
Total Liabilities	64,666
Equity	
Retained Earnings	
Unreserved	106,609
Total Liabilities and Equity	$171,275

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

TOLEDO ACADEMY OF LEARNING
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001

Operating Revenues	
Foundation Payments	$534,243
Disadvantaged Pupil Impact Aid	99,742
Classroom Materials and Fees	2,303
Extracurricular Activities	262
Miscellaneous	1,117
Total Operating Revenues	637,667
Operating Expenses	
Salaries	363,793
Fringe Benefits	117,101
Purchased Services	139,888
Materials and Supplies	36,732
Depreciation	27,201
Other Operating Expenses	16,216
Total Operating Expenses	700,931
Operating Loss	(63,264)
Non-Operating Revenues (Expenses)	
Operating Grants - State	29,114
Operating Grants - Federal	6,080
Interest Earnings	2,006
Total Non-Operating Revenues (Expenses)	37,200
Net Loss	(26,064)
Retained Earnings at Beginning of Year	132,673
Retained Earnings at End of Year	$106,609

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

TOLEDO ACADEMY OF LEARNING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State Foundation and Disadvantaged Pupil Impact Aid	$665,526
Cash Received from Other Sources	3,682
Cash Payments to Suppliers for Goods and Services	(166,196)
Cash Payments to Employees for Services	(380,788)
Cash Payments for Employee Benefits	(110,175)
Cash Payments for Other Operating Uses	(6,245)
Net Cash Provided by Operating Activities	5,804
Cash Flows from Noncapital Financing Activities	
Operating Grants Received - State	29,114
Operating Grants Received - Federal	11,471
Net Cash Provided by Noncapital Financing Activities	40,585
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(11,758)
Net Cash Used by Capital and Related Financing Activities	(11,758)
Cash Flows from Investing Activities	
Cash Received from Interest on Investments	2,006
Net Cash Provided by Investing Activities	2,006
Net Increase in Cash and Cash Equivalents	36,637
Cash and Cash Equivalents at the Beginning of the Year	49,506
Cash and Cash Equivalents at the End of the Year	$86,143

(Continued)

TOLEDO ACADEMY OF LEARNING
STATEMENT OF CASH FLOWS
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2001
(Continued)

Reconciliation of Operating Loss to
Net Cash Provided by Operating Activities

Operating Loss	($63,264)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	27,201
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	4,882
Increase in Accounts Payable	15,513
(Decrease) in Accrued Wages Payable	(16,995)
Increase in Intergovernmental Payable	38,467
Total Adjustments	69,068
Net Cash Provided by Operating Activities	$5,804

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Toledo Academy of Learning (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School 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 School's tax-exempt status. The School's objective is to bridge the gap between families, educators, and the community to form a supportive network dedicated to fostering excellence and innovation in education. The developmental program is offered year-round for students in kindergarten through eighth grade who are average, at risk, special needs, or gifted. The School, 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 School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 19, 1999. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Toledo Academy of Learning, (see note 11).

The School operates under the direction of a eight-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 11non-certified and 11 certificated full time teaching personnel who provide services to 130 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School 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 more significant of the School's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of five years.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2001 school year totaled $35,194.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year the services are consumed.

3. DEPOSITS AND INVESTMENTS

At June 30, 2001, the carrying amount of the School's deposits was $86,143 and the bank balance was $96,520. The bank balance was covered by federal depository insurance.

4. FIXED ASSETS

The following is a summary of changes in fixed assets during the fiscal year:

	Balance 6/30/01
Furniture and Equipment	$64,858
Leasehold Improvements	71,153
	$136,011
Less: accumulated depreciation	(52,051)
Net Fixed Assets	$83,960

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the period July 1, 2000 through June 30, 2001, the School contracted with Nationwide Insurance for property and general liability insurance.

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

B. Workers' Compensation

The School 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.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and The School is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 5.5 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001 and 2000 was $6,290 and $8,306, respectively; 75.87 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. The unpaid contribution for fiscal year 2001, in the amount of $6,298 is recorded as a liability.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the years ended June 30, 2001 and 2000 was $20,610 and $14,735, respectively; 93.22 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. The unpaid contribution for fiscal year 2001, in the amount of $2,128 has been recorded as a liability.

7. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare

7. POSTEMPLOYMENT BENEFITS (continued)

premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $9,763 during the fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were $283,137,000, and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 1.3 percent for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at $12,400. For the School, the amount to fund health care benefits, including the surcharge, was $20,644 during the 2001 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for fiscal year ended June 30, 2000 (the latest information available), were $140,696,340, and the target level was $211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of $252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

8. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

8. OTHER EMPLOYEE BENEFITS (continued)

B. Employee Medical, Dental, and Vision Benefits

The School has contracted with its Sponsor, to provide employee medical, dental, and vision insurance to its full time employees who work 40 or more hours per week.

9. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of March 14, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17,2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

10. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

B. Ohio Community School Program

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

10. CONTINGENCIES (continued)

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review resulted in state funding being adjusted. The School foundation payments were reduced by $31,541 and intergovernmental payable was increased by the same amount, as a result of such a review.

11. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Toledo Academy of Learning. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The amount paid to Fiscal Agent for fiscal year 2001 totaled $12,177, no amounts were payable at year end.

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

1. Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor's or any other Community School's funds;
2. Maintain all books and accounts of all funds of the School;
3. Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
4. Assist the school in meeting all financial reporting requirements established by the Auditor of Ohio;
5. Invest funds of the School in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
6. Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

12. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2001, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES	
Professional and Technical Services	$27,892
Property Services	90,908
Communications	8,036
Contracted Craft or Trade Service	2,643
Pupil Transportation Services	9,134
Travel Mileage/Meeting Expense	1,275
Total Purchased Services	$139,888

13. OPERATING LEASES

The School has entered into a lease commencing September 24, 1999 for a term of 36 months for a copier. Payments made totaled $2,420 for the fiscal year. The copier is owned by Copelco Capital. Unless otherwise notified by the lessee, the lease is renewable monthly at the same rate.

The School has also entered into a lease, with subsequent amendments, for the period August 1, 1999 through July 31, 2002 with Riverside Mercy Hospital to lease space to house the School. Payments made totaled $70,988 for the fiscal year.

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

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2001:

Fiscal Year Ending June 30,	Facility Rental	Copier
2002	$70,988	$3,289
2003	5,916	822
Total minimum payments	$76,904	$4,111

14. SUBSEQUENT EVENTS

The School has entered into a building lease agreement with NZB Limited Liability Company commencing September 1, 2001 through August 30, 2004. The base rent for the initial term is the sum of $519,544 payable in equal monthly installments of $12,064 during the first year and $15,616 each during the second year and third year of the leasehold term. The School has the option to renew the lease for an additional three-year term.

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

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

To the Governing Board:

We have audited the financial statements of Toledo Academy of Learning (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 14, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-10148-001

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated March 14, 2002.

This report is intended for the information and use of management, the Governing Board and the Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

March 14, 2002

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

FINDING NUMBER 2001-10148-001

Material Weakness - Fixed Asset Controls

The following control weaknesses over fixed assets exist:

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

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

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

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

- The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the School's capitalization criteria. Further, addition and disposal forms should be completed by the School and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation creating a master fixed asset listing.

- The School develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added. This master listing of all assets can be then reconciled to the balance sheet and note disclosure amounts.

STATE OF OHIO
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TOLEDO ACADEMY OF LEARNING

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 9, 2002