

Toledo Accelerated Academy Lucas County

Financial Report

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Directors
Toledo Accelerated Academy
4660 S. Hagadorn Rd., Suite 500
East Lansing, MI 48823

We have reviewed the *Independent Auditor's Report* of the Toledo Accelerated Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2005 through June 30, 2006. 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 Accelerated Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 6, 2007

This Page is Intentionally Left Blank.

Toledo Accelerated Academy Lucas County

Contents

Report Letter	1-2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Management's Discussion and Analysis	5-8
Basic Financial Statements	
Statement of Net Assets (Deficit)	9
Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)	10
Statement of Cash Flows	11-12
Notes to Financial Statements	13-28

Independent Auditor's Report

To the Board of Directors
Toledo Accelerated Academy

We have audited the accompanying basic financial statements of Toledo Accelerated Academy as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2006 and the changes in its 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 September 1, 2006 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

To the Board of Directors
Toledo Accelerated Academy

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. We did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 1, 2006

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*

To the Board of Directors
Toledo Accelerated Academy

We have audited the basic financial statements of Toledo Accelerated Academy as of and for the year ended June 30, 2006 and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Toledo Accelerated Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 caused by error or fraud in amounts that would be material in relation to the basic 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of Toledo Accelerated Academy in a separate letter dated September 1, 2006.

To the Board of Directors
Toledo Accelerated Academy

This report is intended for the information and use of management, the board of directors, the sponsor, 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.

Plante & Moran, PLLC

September 1, 2006

Toledo Accelerated Academy Lucas County

Management's Discussion and Analysis

The discussion and analysis of Toledo Accelerated Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*, issued 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 decreased \$50,494, which represents a 170 percent decrease from 2005. This decrease was due primarily to a decrease in federal revenue and a disproportionate decrease in expenses.
- Total assets decreased \$134,327, which represents a 22 percent decrease from 2005. This was due primarily to the decrease in net capital assets due to depreciation.
- Liabilities decreased \$83,833 which represents a 15 percent decrease from 2005. This decrease was due to a decrease in contracts payable.

Using this Financial Report

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

Statement of Net Assets

The statement of net assets (deficit) answers the question, "How did we do financially during 2006?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Toledo Accelerated Academy Lucas County

Management's Discussion and Analysis (Continued)

Table I provides a summary of the Academy's net assets (deficit) for fiscal years 2006 and 2005:

TABLE I	June 30	
	2006	2005
Assets		
Current assets	\$ 28,921	\$ 19,449
Capital assets - Net	428,886	572,685
Other noncurrent assets	10,295	10,295
Total assets	468,102	602,429
Liabilities		
Current liabilities	234,946	242,779
Noncurrent liabilities	254,000	330,000
Total liabilities	488,946	572,779
Net Assets (Deficit)		
Invested in capital assets	124,886	192,685
Unrestricted	(145,730)	(163,035)
Total net assets (deficit)	<u>\$ (20,844)</u>	<u>\$ 29,650</u>

Total assets decreased \$134,327. This was due primarily to the depreciation of capital assets. Cash decreased by \$1,733 from 2005. Intergovernmental receivables increased by \$11,205. This increase was due to the timing of the receipt of some grants. Capital assets, net of depreciation decreased by \$143,799, due primarily to the depreciation of furniture, fixtures, equipment, library books, and leasehold improvements.

Toledo Accelerated Academy Lucas County

Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets for fiscal years 2006 and 2005, as well as a listing of revenues and expenses.

TABLE 2

	June 30	
	2006	2005
Operating Revenues		
Foundation payments	\$ 931,765	\$ 938,891
Disadvantaged pupil impact aid	26,825	25,455
Charges for services	1,753	1,060
Other	725	4,249
Nonoperating Revenues		
Federal grants	174,903	536,189
State grants	7,813	10,499
Total revenue	1,143,784	1,516,343
Operating Expenses		
Salaries	339,492	489,637
Fringe benefits	123,538	191,499
Purchased services	501,030	580,705
Materials and supplies	24,600	76,956
Depreciation (unallocated)	155,139	134,878
Other expenses	2,621	5,850
Nonoperating Expenses		
Interest	38,955	20,875
Taxes	8,903	17,905
Total expenses	1,194,278	1,518,305
Decrease in Net Assets	\$ (50,494)	\$ (1,962)

Net assets decreased by \$50,494. This was due primarily to not receiving funding from the Charter School Grant and reduced funding from Title I. There was a decrease in revenues of \$372,559 and a decrease in expenses of \$318,879 from 2005. Of the decrease in revenue, the Charter School Grant decreased by \$241,213 and funding from Title I decreased \$67,936. Community schools receive no support from tax revenues.

Toledo Accelerated Academy Lucas County

Management's Discussion and Analysis (Continued)

The expense for salaries decreased \$150,145 and the expense for fringe benefits decreased \$67,859 from 2005. This was due primarily to a decrease in higher-salaried staff during fiscal year 2006. Depreciation expense increased \$20,261.

Capital Assets

At the end of fiscal year 2006 the Academy had \$428,886 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represented a decrease of \$143,799 from 2005. Table 3 shows fiscal years 2006 and 2005 capital assets (net of depreciation):

	2006	2005
Leasehold improvements	\$ 323,489	\$ 417,953
Library books	21,267	26,265
Furniture, fixtures, and equipment	84,130	128,467
Total capital assets	<u>\$ 428,886</u>	<u>\$ 572,685</u>

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

Current Financial Issues

Toledo Accelerated Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2005-2006 school year, there were approximately 147 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2006 amounted to \$958,590.

Contacting the School's Financial Management

This 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 Toledo Accelerated Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

Toledo Accelerated Academy Lucas County

Statement of Net Assets (Deficit) June 30, 2006

Assets

Current assets:

Cash (Note 3)	\$	2,209
Intergovernmental receivable (Note 4)		17,668
Prepaid expenses		<u>9,044</u>
Total current assets		28,921

Noncurrent assets:

Deposits		10,295
Depreciable capital assets - Net (Note 5)		<u>428,886</u>
Total assets		468,102

Liabilities

Current liabilities:

Accounts payable		18,336
Contracts payable (Note 14)		57,519
Capital lease payable - Current portion (Note 6)		50,000
Note payable (Note 6)		<u>109,091</u>
Total current liabilities		234,946

Noncurrent liabilities - Capital lease payable - Noncurrent portion (Note 6)

254,000

Total liabilities

488,946

Net Assets (Deficit)

Invested in capital assets - Net of related debt		124,886
Unrestricted		<u>(145,730)</u>
Total net assets (deficit)	\$	<u><u>(20,844)</u></u>

Toledo Accelerated Academy Lucas County

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2006

Operating Revenues	
Foundation payments	\$ 931,765
Disadvantaged pupil impact aid	26,825
Charges for services	1,753
Other revenues	<u>725</u>
Total operating revenues	961,068
Operating Expenses	
Salaries	339,492
Fringe benefits	123,538
Purchased services (Note 11)	501,030
Materials and supplies	24,600
Depreciation	155,139
Other	<u>2,621</u>
Total operating expenses	<u>1,146,420</u>
Operating Loss	(185,352)
Nonoperating Revenues (Expenses)	
Federal grants	174,903
State grants	7,813
Federal and state taxes	(8,903)
Interest	<u>(38,955)</u>
Total nonoperating revenues	<u>134,858</u>
Change in Net Assets	(50,494)
Net Assets - Beginning of year	<u>29,650</u>
Net Assets (Deficit) - End of year	<u><u>\$ (20,844)</u></u>

Toledo Accelerated Academy Lucas County

Statement of Cash Flows Year Ended June 30, 2006

Cash Flows from Operating Activities

Received from foundation payments	\$ 931,765
Received from disadvantaged pupil impact aid	26,825
Received from other operating revenues	2,478
Payments to suppliers for goods and services	(617,978)
Payments to employees for services	(341,689)
Payments for employee benefits	<u>(129,900)</u>

Net cash used in operating activities (128,499)

Cash Flows from Noncapital Financing Activities

Proceeds from notes payable	400,000
Payments on notes payable	(315,909)
Federal grants received	170,060
State grants received	7,813
Federal and state taxes	<u>(8,903)</u>

Net cash provided by noncapital financing activities 253,061

Cash Flows from Capital and Related Financing Activities

Interest payments and fiscal charges	(38,955)
Payments for capital acquisitions	(11,340)
Payments on capital lease obligation	<u>(76,000)</u>

Net cash used in capital and related financing activities (126,295)

Net Decrease in Cash (1,733)

Cash - Beginning of year 3,942

Cash - End of year \$ 2,209

Toledo Accelerated Academy Lucas County

Statement of Cash Flows (Continued) Year Ended June 30, 2006

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (185,352)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	155,139
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(6,362)
Decrease in accounts payable	(2,249)
Decrease in contracts payable	<u>(89,675)</u>
 Total adjustments	 <u>56,853</u>
 Net cash used in operating activities	 <u><u>\$ (128,499)</u></u>

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note I - Description of the School and Reporting Entity

Toledo Accelerated Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades sixth through twelfth. The Academy's mission is to create an environment where personal growth, academic excellence, and acceleration can thrive. By encouraging and expecting hard work academically, by enhancing personal growth through teaching of values, by expecting community involvement by assigning service projects, and by enlisting parental support through continuous communication with the school, a positive overall learning environment will be created. 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.

On August 22, 2001, the Academy was approved for operation under contract with the Ohio Council of Community Schools (the "Sponsor") for a period of five years through June 30, 2006. The contract was subsequently renewed for a period of six years through June 30, 2012. 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. Sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2006 totaled approximately \$29,000.

The Academy operates under the direction of a five-member board of directors who also is the governing board for five other The Leona Group, LLC-managed schools (see Note 13). The board of directors 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 board of directors controls the Academy's instructional/support facility staffed by six certificated full-time teaching personnel who provide services to 147 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 the Academy. 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).

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 2 - Summary of Significant Accounting Policies

The financial statements of Toledo Accelerated 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 to also follow private sector guidance issued after November 30, 1989 for its business-type activities. The more significant of the Academy's accounting policies are described below.

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.

The Academy's basic financial statements consist of a statement of net assets (deficit), a statement of revenue, expenses, and changes in net assets (deficit), and a statement of cash flows.

Enterprise Fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

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 (deficit). The statement of changes in net assets (deficit) presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets (deficit). The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

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.

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

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

Intergovernmental Receivable - Receivables at June 30, 2006 consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

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 leasehold improvements, 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 will also be capitalized. 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.

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Leasehold improvements	5 years
Library books	6 years
Furniture, fixtures, and equipment	3-7 years

Net Assets (Deficit) - Net assets (deficit) represents the difference between assets and liabilities. Invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has approximately \$304,000 in debt related to capital assets.

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 nonoperating.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Intergovernmental Revenues - The Academy 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.

Tax Status - The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 2005 and has filed for an extension for fiscal year 2006. Amounts owed to the IRS and the State of Ohio at June 30, 2006 are reported on the statement of net assets (deficit) as taxes payable, if significant.

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 3 - Deposits

The Academy has designated two banks for the deposit of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is subject to custodial credit risk.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$340,939 had \$231,164 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Receivables

A summary of the principal items of intergovernmental receivables follows:

Title I	\$	6,378
Title II-D		1,160
Title IV		236
Child Nutrition		3,532
Other intergovernmental (Note 9)		<u>6,362</u>
Total all intergovernmental receivables	\$	<u><u>17,668</u></u>

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006 is as follows:

	Balance June 30, 2005	Additions	Balance June 30, 2006
Business-type Activity			
Capital assets being depreciated:			
Leasehold improvements	\$ 512,607	\$ 11,340	\$ 523,947
Library books	30,004	-	30,004
Furniture, fixtures, and equipment	<u>176,802</u>	<u>-</u>	<u>176,802</u>
Total capital assets being depreciated	719,413	11,340	730,753
Less accumulated depreciation:			
Leasehold improvements	(94,654)	(105,804)	(200,458)
Library books	(3,739)	(4,998)	(8,737)
Furniture, fixtures, and equipment	<u>(48,335)</u>	<u>(44,337)</u>	<u>(92,672)</u>
Total accumulated depreciation	<u>(146,728)</u>	<u>(155,139)</u>	<u>(301,867)</u>
Net capital assets being depreciated	<u>\$ 572,685</u>	<u>\$ (143,799)</u>	<u>\$ 428,886</u>

Note 6 - Note and Capital Lease Payables

Debt activity during 2006 was as follows:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006
Capital lease payable - Hess Family	\$ 380,000	\$ -	\$ (76,000)	\$ 304,000
Note payable - Citizens Bank	<u>25,000</u>	<u>400,000</u>	<u>(315,909)</u>	<u>109,091</u>
Total	<u>\$ 405,000</u>	<u>\$ 400,000</u>	<u>\$ (391,909)</u>	<u>\$ 413,091</u>

The Academy entered into a loan with Citizens Bank for \$400,000 on August 24, 2005. The note has an interest rate of 5.06 percent and has a maturity date of September 5, 2006.

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 6 - Note and Capital Lease Payables (Continued)

Amortization of the above note payable is scheduled as follows:

Year Ending June 30	Citizens Bank
2007	<u>\$ 109,091</u>

Capital Lease - The Academy has entered into a lease agreement as lessee for financing the purchase of leasehold improvements. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. Total value of the capitalized leasehold improvements was \$500,000, with accumulated depreciation of \$193,755 at year end. The future minimum lease obligations and the net present value are as follows:

2007	\$ 72,000
2008	74,000
2009	<u>254,000</u>
Total minimum lease payments	400,000
Less amount representing interest	<u>96,000</u>
Present value of minimum lease payments	<u>\$ 304,000</u>

Note 7 - Risk Management

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 2006, the Academy contracted with EMC Insurance Company for general liability, property insurance, and educational errors and omissions insurance.

Coverages are as follows:

Educational errors and omissions:	
Per occurrence	\$ 8,000,000
Total per year	8,000,000
General liability:	
Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	1,000,000

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 7 - Risk Management (Continued)

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.

Note 8 - Defined Benefit Pension Plans

School Employees Retirement System

Plan Description - 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 state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853, or by visiting the SERS Ohio Website at www.ohsers.org.

Funding Policy - 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 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 2006, 10.57 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 statutory maximum amounts, by the SERS' Retirement Board. The Academy's contributions to SERS for the years ended June 30, 2006, 2005, and 2004 were \$4,264, \$8,009, and \$18,190, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for the fiscal years ended June 30, 2006, 2005, and 2004.

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.

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 8 - Defined Benefit Pension Plans (Continued)

Plan Options - New members have a choice of three retirement plan options. In addition to the defined benefit (DB) plan, new members are offered a defined contribution (DC) plan and a combined plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The combined plan offers features of the DC plan and the DB plan. In the combined plan, member contributions are allocated by the member and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. Contributions into the DC plan and the combined plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio Service credit is calculated at 2.5 percent. An additional .1 percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 8 - Defined Benefit Pension Plans (Continued)

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the combined plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3 percent of the original base amount for defined benefit plan participants.

The defined benefit and combined plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 8 - Defined Benefit Pension Plans (Continued)

A defined benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the defined benefit plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or combined plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2006 were 10 percent of covered payroll for members and 14 percent for employers; 13 percent was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$37,002, \$52,371, and \$75,543, respectively; equal to the required contributions for each year, of which 100 percent has been contributed for the fiscal years ended June 30, 2006, 2005, and 2004.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Website at www.strsoh.org.

Note 9 - Postemployment Benefits

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with 10 or more years of qualifying service credit and disability and survivor benefit recipients. Effective January 1, 2004, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 9 - Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2006, the allocation rate is 3.43 percent. 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, prorated for partial service credit. For fiscal year 2005, the latest year available, the minimum pay has been established at \$27,400. 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. For the Academy, the amount to fund health care benefits, including the surcharge, was \$2,459 for fiscal year 2006.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2005, the latest year available, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the latest year available, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. 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 claim costs. The number of benefit recipients who received health care benefits was 58,123 for the fiscal year ended June 30, 2005, the latest year available.

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the defined benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the "Board") has discretionary authority over how much, if any, of the associated 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.

R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 9 - Postemployment Benefits (Continued)

The Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2006 and 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005, the latest year available.

For the Academy, this amount equaled \$2,846 during the 2006 fiscal year. For the fiscal year ended June 30, 2005, the latest year available, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients for the fiscal year ended June 30, 2005, the latest year available.

Note 10 - Contingencies

Grants - The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

State Funding - The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2006, the results of this review are not concluded. However, in the opinion of management, any changes to enrollment data will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 11 - Purchased Service Expense

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	\$ 6,135
Legal	1,417
Insurance	13,806
Advertising	14,872
Dues and fees	44,827
Ohio Council of Community Schools	28,815
The Leona Group, LLC (Note 14)	137,254
Cleaning services	2,290
Utility	37,851
Building lease agreement	108,522
Other professional services	90,423
Other rentals and leases	<u>14,818</u>
Total purchased services	<u><u>\$ 501,030</u></u>

Note 12 - Operating Leases

On April 1, 2004, the Academy entered into a lease for the period from April 1, 2004 through June 30, 2009 with the Hess Family, Ltd., with an annual rent of \$108,522 due in equal, monthly installments beginning August 1, 2004. Payments made under the lease totaled \$108,522 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2006.

Fiscal Year Ending <u>June 30</u>	<u>Facility Lease</u>
2007	\$ 108,522
2008	108,522
2009	<u>108,522</u>
Total minimum lease payments	<u><u>\$ 325,566</u></u>

Toledo Accelerated Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 13 - Related Parties

The Academy's governing board consists of the same members as the governing boards for Eagle Academy, Lake Erie Academy, George A. Phillips Academy, Paul Laurence Dunbar Academy, and Wildwood Environmental Academy.

Note 14 - Management Agreement

The Academy entered into a five-year contract, effective August 20, 2001 through August 20, 2006, with annual renewal options, with The Leona Group, LLC (TLG) for educational management services for all of the management, operation, administration, and education at the Academy. The management agreement was renewed effective July 1, 2006 for a period of six years to continue through June 30, 2012. In exchange for its services, TLG receives a capitation fee of 12 percent of the per pupil expenditures and a year-end fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The Academy incurred a management fee totaling \$137,254 for the year ended June 30, 2006. At June 30, 2006, contracts payable include \$2,820 for the payment of management fees and approximately \$55,000 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require TLG to provide the following:

- Implementation and administration of the educational program
- Management of all personnel functions, including professional development
- Operation of the school building and the installation of technology integral to school design
- All aspects of the business administration of the Academy
- The provision of food service for the Academy
- Any other function necessary or expedient for the administration of the Academy

The Academy may terminate this agreement with cause prior to the end of the term in the event that The Leona Group, LLC should fail to remedy a material breach within a period reasonable under the circumstances, but not less than 60 days after notice from the Academy.

The Leona Group, LLC may terminate this agreement with cause prior to the end of the specified term in the event the Academy fails to remedy a material breach within a period reasonable under the circumstances, but not less than 60 days after notice from The Leona Group, LLC.

Toledo Accelerated Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 14 - Management Agreement (Continued)

In the event this agreement is terminated by either party prior to the end of the specified term, the termination will not become effective until the end of the school year following the notice of termination and The Leona Group, LLC shall provide the Academy reasonable assistance for up to 90 days to assist in the transition to a regular school program.

For the year ended June 30, 2006, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	\$ 339,492
Fringe benefits	123,538
Professional and technical services	56,060
Other direct costs	32,510
Indirect expenses - Overhead	<u>-</u>
Total expenses	<u>\$ 551,600</u>

Note 15 - Subsequent Events

On August 30, 2006, the Academy entered into a loan agreement with Citizens Banking Corporation for \$500,000 at 6.2 percent interest with a maturity date of September 5, 2007.

Note 16 - Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Academy as a going concern. The Academy has a net deficit of (\$20,844). During the year ended June 30, 2007, the Academy plans to increase enrollment and revenue through aggressive marketing campaigns and better control costs. Management believes such measures will enable the Academy to build a fund balance and pay its deferred management fees.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net assets (deficit) is dependent upon continued operations of the Academy, which in turn is dependent upon the Academy's ability to meet its financing requirements and the success of future operations. Management believes that actions presently being taken to revise the Academy's operations provide the opportunity for the Academy to continue as a going concern.



Mary Taylor, CPA
Auditor of State

TOLEDO ACCELERATED ACADEMY

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
FEBRUARY 13, 2007**