

Toledo Preparatory Academy
(formerly Toledo Accelerated Academy)
Lucas County

Financial Report
June 30, 2008



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Toledo Preparatory Academy, Lucas County, prepared by Plante & Moran, PLLC, 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 Toledo Preparatory Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 6, 2009

This Page is Intentionally Left Blank.

Toledo Preparatory 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>	3-5
Management's Discussion and Analysis	6-9
Basic Financial Statements	
Statement of Net Assets (Deficit)	10
Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)	11
Statement of Cash Flows	12-13
Notes to Financial Statements	14-27

Independent Auditor's Report

To the Board of Directors
Toledo Preparatory Academy

We have audited the accompanying basic financial statements of Toledo Preparatory Academy (the "Academy") as of and for the year ended June 30, 2008, 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, 2008 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.

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 the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. We did not audit the information and express no opinion on it.

To the Board of Directors
Toledo Preparatory Academy

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2009 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.

Plante & Moran, PLLC

January 21, 2009

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 Preparatory Academy

We have audited the basic financial statements of Toledo Preparatory Academy as of and for the year ended June 30, 2008 and have issued our report thereon dated January 21, 2009. 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 Preparatory Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Toledo Preparatory Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Toledo Preparatory 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 that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

To the Board of Directors
Toledo Preparatory Academy

- Rent should be recorded as an expense for the year to which it relates. The Academy mistakenly recorded 13 months of rent. An adjustment to decrease the expense for \$4,500 is included in the summary of adjusting entries. Currently, total expenses and assets are properly stated for this amount. We recommend that someone other than the person recording the entries review the details to ensure that they are properly recorded and the balances are accurate. View of responsible official and corrective action plan: The accounting personnel for the Academy will ensure in the future that rent expense is recorded and reviewed appropriately at year end to ensure the proper accounting treatment.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Toledo Preparatory 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 certain immaterial instances of noncompliance and other matters that we have reported to the management of Toledo Preparatory Academy in a separate letter dated January 21, 2009.

This report is intended for the information and use of management, the board of directors, the sponsor, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 21, 2009

Toledo Preparatory Academy Lucas County

Management's Discussion and Analysis

The discussion and analysis of Toledo Preparatory Academy's (the "Academy") 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 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 Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets increased \$68,269, which represents a 17 percent increase from 2007. This increase was due primarily to an increase in revenue due to the greater foundation payments and a decrease in expenses related to depreciation expense.
- Total assets increased \$34,387, which represents a 40 percent increase from 2007. This was due primarily to an increase in cash and accounts receivable.

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 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 account all revenues and expenses during the year, regardless of when the cash is received or paid.

Toledo Preparatory Academy Lucas County

Management's Discussion and Analysis (Continued)

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

TABLE I	June 30	
	2008	2007
Assets		
Current assets	\$ 71,829	\$ 15,874
Capital assets - Net	37,738	59,306
Other noncurrent assets	10,295	10,295
Total assets	119,862	85,475
Liabilities		
Current liabilities	273,814	217,001
Noncurrent liabilities	180,000	270,695
Total liabilities	453,814	487,696
Net Assets (Deficit)		
Invested in capital assets	37,738	59,306
Unrestricted	(371,690)	(461,527)
Total net deficit	<u>\$ (333,952)</u>	<u>\$ (402,221)</u>

Total assets increased \$34,387. Cash increased by \$27,118 from 2007. Intergovernmental receivables increased by \$12,168. This increase was due to the timing of the receipt of funding. Capital assets, net of depreciation, decreased by \$21,568, due primarily to the depreciation of furniture, fixtures, equipment, and library books.

Toledo Preparatory Academy Lucas County

Management's Discussion and Analysis (Continued)

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

TABLE 2	Year Ended June 30	
	2008	2007
Operating Revenues		
Foundation payments	\$ 745,983	\$ 661,740
Poverty based assistance	35,422	35,059
Charges for services	160	358
Nonoperating Revenues		
Federal grants	148,652	130,018
State grants	5,719	9,434
Total revenue	935,936	836,609
Operating Expenses		
Salaries	279,392	255,003
Fringe benefits	101,667	100,417
Purchased services	439,425	418,961
Materials and supplies	16,202	13,883
Depreciation (unallocated)	22,661	369,580
Other expenses	8,075	4,545
Total operating expenses	867,422	1,162,389
Nonoperating Expenses		
Interest	6,719	43,778
Taxes	(6,474)	11,819
Total nonoperating expenses	245	55,597
Total expenses	867,667	1,217,986
Increase (Decrease) in Net Assets	\$ 68,269	\$ (381,377)

Net assets (deficit) increased by \$68,269. This was due primarily to an increase in foundation payments and a decrease in depreciation expense. Revenue increased as a result of an increase in students. There was an increase in revenues of \$99,327 and a decrease in expenses of \$350,319 from 2007. Of the increase in revenue, foundation payments increased by \$84,243 and funding from federal grants increased \$18,634. Community schools receive no support from tax revenues.

Toledo Preparatory Academy Lucas County

Management's Discussion and Analysis (Continued)

The expense for salaries increased \$24,389 and the expense for fringe benefits increased \$1,250 from 2007. This was due primarily to an increase in new staff during fiscal year 2008. Depreciation expense decreased \$346,919, which related to the write-off of improvements that were deemed to be impaired due to the Academy relocating to a different facility during 2007.

Capital Assets

At the end of fiscal year 2007, the Academy had \$37,738 invested in library books, furniture, fixtures, and equipment (net of depreciation), which represented a decrease of \$21,568 from 2007. Table 3 shows fiscal years 2008 and 2007 capital assets (net of depreciation):

	2008	2007
Library books	11,257	16,269
Furniture, fixtures, and equipment	26,481	43,037
Total capital assets	<u>\$ 37,738</u>	<u>\$ 59,306</u>

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

Current Financial Issues

Toledo Preparatory Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2007-2008 school year, there were approximately 104 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including poverty based assistance) for fiscal year 2008 amounted to \$781,405.

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 Preparatory Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or by email at don.ash@leonagroup.com.

Toledo Preparatory Academy Lucas County

Statement of Net Assets (Deficit) June 30, 2008

Assets

Current assets:

Cash (Note 3)	\$	30,909
Intergovernmental receivable (Note 4)		23,175
Prepaid expenses		<u>17,745</u>
Total current assets		71,829

Noncurrent assets:

Deposits		10,295
Depreciable capital assets - Net (Note 5)		<u>37,738</u>
Total assets		119,862

Liabilities

Current liabilities:

Accounts payable		14,746
Contracts payable (Note 13)		143,555
Capital lease payable (Note 6)		50,000
Note payable (Note 6)		37,304
State aid anticipation note (Note 14)		27,778
Deferred Revenue		<u>431</u>

Total current liabilities 273,814

Noncurrent liabilities - Capital lease payable (Note 6) 180,000

Total liabilities 453,814

Net Assets (Deficit)

Invested in capital assets - Net of related debt		37,738
Unrestricted		<u>(371,690)</u>
Total net deficit	\$	<u><u>(333,952)</u></u>

Toledo Preparatory Academy Lucas County

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2008

Operating Revenues	
Foundation payments	\$ 745,983
Poverty based assistance	35,422
Charges for services	<u>160</u>
Total operating revenues	781,565
Operating Expenses	
Salaries	279,392
Fringe benefits	101,667
Purchased services (Note 11)	439,425
Materials and supplies	16,202
Depreciation	22,661
Other	<u>8,075</u>
Total operating expenses	<u>867,422</u>
Operating Loss	(85,857)
Nonoperating Revenues (Expense)	
Federal grants	148,652
State grants	5,719
Federal and state taxes	6,474
Interest	<u>(6,719)</u>
Total nonoperating revenues	<u>154,126</u>
Change in Net Assets	68,269
Net Deficit - Beginning of year	<u>(402,221)</u>
Net Deficit - End of year	<u>\$ (333,952)</u>

Toledo Preparatory Academy Lucas County

Statement of Cash Flows Year Ended June 30, 2008

Cash Flows from Operating Activities

Received from foundation payments	\$ 745,983
Received from poverty based assistance	35,422
Received from other operating revenues	283
Payments to suppliers for goods and services	(458,391)
Payments to employees for services	(281,236)
Payments for employee benefits	(101,667)
	<hr/>
Net cash used in operating activities	(59,606)

Cash Flows from Noncapital Financing Activities

State aid note - Net of repayments	27,778
Federal grants received	148,652
State grants received	5,719
Federal and state taxes	6,474
	<hr/>
Net cash provided by noncapital financing activities	188,623

Cash Flows from Capital and Related Financing Activities

Interest payments and fiscal charges	(6,719)
Payments on notes payable	(44,087)
Net payments on capital lease obligation	(50,000)
	<hr/>
Net cash used in capital and related financing activities	(100,806)

Cash Flows from Investing Activities - Purchase of capital assets (1,093)

Net Increase in Cash 27,118

Cash - Beginning of year 3,791

Cash - End of year \$ 30,909

Toledo Preparatory Academy Lucas County

Statement of Cash Flows (Continued) Year Ended June 30, 2008

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (85,857)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	22,661
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(10,969)
Increase in prepaid expenses	(17,745)
Decrease in accounts payable	(2,636)
Increase in contracts payable	<u>34,940</u>
Total adjustments	<u>26,251</u>
Net cash used in operating activities	<u><u>\$ (59,606)</u></u>

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 1 - Description of the School and Reporting Entity

Toledo Preparatory Academy (formerly 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 six through twelve. 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. The Academy changed its name on July 9, 2007.

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, 2008 totaled approximately \$23,000.

The Academy operates under the direction of a four-member board of directors which is also the governing board for one other The Leona Group, LLC-managed school. 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 four certificated full-time teaching personnel who provide services to 104 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 13).

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 2 - Summary of Significant Accounting Policies

The financial statements of Toledo Preparatory 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 revenue, expenses, and changes in net assets (deficit) presents increases (i.e., revenues) and decreases (i.e., expenses) in net 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 Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

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 prescribes an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

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

Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid expenses 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 charged to expense when incurred.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

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:

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

Net Assets (Deficit) - Net assets (deficit) represent 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.

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 good or service that is 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 Poverty Based Assistance (PBA) 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 2006 and has filed for an extension for fiscal year 2007. Amounts owed to the IRS and the State of Ohio at June 30, 2008 are reported on the statement of net assets (deficit) as taxes payable, if significant.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

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 \$42,905 had no bank deposits (checking and savings accounts) that were uninsured or 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 - Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

Title I	\$	16,227
Title V		114
Special Education Grants		8
Mentor Grant		4,042
Child Nutrition		2,610
Other		174
		<hr/>
Total all intergovernmental receivables	\$	<u>23,175</u>

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

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

	Balance June 30, 2007	Additions	Balance June 30, 2008
Business-type Activity			
Capital assets being depreciated:			
Library books	\$ 30,004	\$ -	\$ 30,004
Furniture, fixtures, and equipment	<u>176,802</u>	<u>1,093</u>	<u>177,895</u>
Total capital assets being depreciated	206,806	1,093	207,899
Less accumulated depreciation:			
Library books	13,735	5,012	18,747
Furniture, fixtures, and equipment	<u>133,765</u>	<u>17,649</u>	<u>151,414</u>
Total accumulated depreciation	<u>147,500</u>	<u>22,661</u>	<u>170,161</u>
Net capital assets being depreciated	<u>\$ 59,306</u>	<u>\$ (21,568)</u>	<u>\$ 37,738</u>

Note 6 - Note and Capital Lease Payables

Debt activity during 2008 was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Capital lease payable - Hess Family, Ltd.	\$ 280,000	\$ -	\$ (50,000)	\$ 230,000
Note payable - Hess Family, Ltd.	<u>81,391</u>	<u>-</u>	<u>(44,087)</u>	<u>37,304</u>
Total	<u>\$ 361,391</u>	<u>\$ -</u>	<u>\$ (94,087)</u>	<u>\$ 267,304</u>

On November 8, 2006, the Academy entered into an uncollateralized, noninterest-bearing loan with Hess Family, Ltd. for the payment of 10 months' rent at a value of \$81,391. The loan is payable in equal installments of \$3,391 over 24 months. The remaining \$37,304 is due in fiscal year 2009.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 6 - Note and Capital Lease Payables (Continued)

Capital Lease - The Academy 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. The lease is secured by all furniture, fixtures, and equipment of the Academy. The future minimum lease obligations and the net present value are as follows:

2009	\$ 50,000
2010	<u>276,000</u>
Total minimum lease payments	326,000
Less amount representing interest	<u>96,000</u>
Present value of minimum lease payments	<u><u>\$ 230,000</u></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 2008, the Academy contracted with Employers Mutual Casualty Company for general liability, property insurance, and educational errors and omissions insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 7 - Risk Management (Continued)

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

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

The Academy contributes to the School Employees' Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees' Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 healthcare 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 years ended June 30, 2008, 2007, and 2006 were \$4,145, \$3,484, and \$4,264, respectively; 35 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 8 - Defined Benefit Pension Plans (Continued)

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 plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, or a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 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.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 8 - Defined Benefit Pension Plans (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. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$28,781, \$27,073, and \$37,002 respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$30,579 made by the Academy and \$21,842 made by the plan members.

Note 9 - Postemployment Benefits

School Employees' Retirement System

The Academy participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees' Retirement System (the "System") for non-certificated retirees and their beneficiaries, a healthcare plan and a Medicare Part B Plan. The healthcare plan includes hospitalization and physicians' fees through several types of plans including HMOs, PPOs, 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, Ohio 43215-3746.

State statute permits SERS to fund the healthcare 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 \$1,891.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 9 - Postemployment Benefits (Continued)

Active employee members do not contribute to the healthcare plan. Retirees and their beneficiaries are required to pay a healthcare 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 years ended June 30, 2008, 2007, and 2006 were \$1,891, \$1,768, and \$2,415, respectively; 35 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$299, \$35, and \$44 respectively; 35 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

State Teachers Retirement System

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 healthcare 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 postemployment 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 years ended June 30, 2008, 2007, and 2006 were \$2,214, \$2,083, and \$2,846, respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

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, 2008.

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 2008, 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, 2008.

Note 11 - Purchased Service Expense

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

Repairs and maintenance	\$	6,304
Legal		10,371
Insurance		14,142
Advertising		16,489
Dues and fees		17,434
Ohio Council of Community Schools		23,442
The Leona Group, LLC (Note 13)		180,801
Cleaning services		1,138
Utility		14,865
Building lease agreement		54,000
Other professional services		89,300
Other rentals and leases		11,139
		<hr/>
Total purchased services	\$	<u>439,425</u>

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

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 Hess Family, Ltd., with an annual rent of \$108,522 due in equal monthly installments beginning August 1, 2004 for the use of a school facility. Payments made under the lease totaled \$108,522 for the fiscal year. The lease was assigned to Great Lakes Environmental Academy, another academy managed by The Leona Group, LLC, as of July 1, 2007, and the Academy has been released from all future obligations related to the operating lease.

On June 23, 2007, the Academy assumed a lease from George A. Phillips Academy for the period beginning July 1, 2007 through July 1, 2010, with renewal options, with the Fraternal Order of Police Toledo Lodge #40 to lease a building. The Academy may terminate the lease at any time during the lease term by giving the landlord at least 90 days prior written notice if either (i) any changes in federal, state, or local law or regulation mandate the expenditure of \$100,000 or more to modify or improve the facility and landlord and tenant are not able to negotiate an acceptable lease amendment addressing that issue within the 90-day period or (ii) actual funding from the State of Ohio to the tenant is reduced to such an extent that the tenant permanently ceases operation, provided that the tenant has sought adequate funding diligently and in good faith.

Subsequent to year end, The Leona Group, LLC purchased the property from the Fraternal Order of Police Toledo Lodge #40. The Academy entered into a lease with The Leona Group, LLC for the period beginning July 1, 2008 through June 30, 2013.

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

Years Ending June 30	Amount
2009	\$ 54,000
2010	54,000
2011	54,000
2012	54,000
2013	54,000
Total minimum lease payments	<u>\$ 270,000</u>

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 13 - 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 \$180,801 for the year ended June 30, 2008. At June 30, 2008, contracts payable include \$78,197 for the payment of management fees, \$15,000 for a cash advance, and approximately \$49,000 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.

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.

Toledo Preparatory Academy Lucas County

Notes to Financial Statements June 30, 2008

Note 13 - Management Agreement (Continued)

For the year ended June 30, 2008, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	\$ 279,392
Fringe benefits	101,667
Professional and technical services	54,568
Other direct costs	<u>13,104</u>
Total expenses	<u>\$ 448,731</u>

Note 14 - State Aid Note

During the fiscal year, the Academy borrowed \$250,000 in a state aid note. The note bore interest at a variable annual interest rate equal to the prime rate, adjusted monthly. The effective rate was 5.00 percent at June 30, 2008 and the note was paid in full on July 7, 2008.

Note 15 - Subsequent Events

Subsequent to year end, the Academy borrowed \$150,000 at a variable interest rate equal to the prime rate, adjusted monthly, on a state aid anticipation note. The note, plus interest, is due June 30, 2009.



Mary Taylor, CPA
Auditor of State

TOLEDO PREPARATORY 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
MAY 7, 2009**