

**Toledo Preparatory Academy
Lucas County**

**Financial Report
June 30, 2009**



Mary Taylor, CPA

Auditor of State

Board of Directors
Toledo Preparatory Academy
4660 S. Hagadorn Road, Suite 500
East Lansing, MI 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, 2008 through June 30, 2009. 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

March 22, 2010

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Toledo Preparatory Academy

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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, 2009, 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, 2009 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 4, 2010 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 4, 2010

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, 2009 and have issued our report thereon dated January 4, 2010. 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.

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

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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Toledo Preparatory Academy

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 no instances of noncompliance or other matters that are required to be disclosed under *Government Auditing Standards*. We noted certain other matters that we have reported to the management of Toledo Preparatory Academy in a separate letter dated January 4, 2010.

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

Plante & Moran, PLLC

January 4, 2010

Toledo Preparatory Academy

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, 2009. 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 (deficit) increased \$43,828, which represents a 13 percent increase from 2008. This increase was due primarily to a decrease in total liabilities with no outstanding notes payable or claims payable in 2009.
- Total assets increased \$4,548, which represents a 4 percent increase from 2008. This was due primarily to an increase in accounts receivable.
- Total liabilities decreased \$39,280, which represents a 9 percent decrease from 2008. This was due primarily to a decrease in notes payable and claims 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 2009?" 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

Management's Discussion and Analysis (Continued)

Table I provides a summary of the Academy's net deficit for fiscal years 2009 and 2008:

TABLE I	June 30	
	2009	2008
Assets		
Current assets	\$ 74,783	\$ 71,829
Capital assets - Net	39,332	37,738
Other noncurrent assets	10,295	10,295
Total assets	124,410	119,862
Liabilities		
Current liabilities	414,534	273,814
Noncurrent liabilities	-	180,000
Total liabilities	414,534	453,814
Net Assets (Deficit)		
Invested in capital assets	39,332	37,738
Unrestricted	(329,456)	(371,690)
Total net deficit	<u>\$ (290,124)</u>	<u>\$ (333,952)</u>

Total assets increased \$4,548. Cash decreased by \$17,415 from 2008. Intergovernmental receivables increased by \$26,413. This increase was due to the timing of the receipt of funding. Capital assets, net of depreciation, increased by \$1,594, due to new purchases.

Toledo Preparatory Academy

Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets for fiscal years 2009 and 2008, as well as a listing of revenues and expenses.

TABLE 2	Year Ended June 30	
	2009	2008
Operating Revenues		
Foundation payments	\$ 814,778	\$ 745,983
Poverty-based Assistance	35,422	35,422
Charges for services	-	160
Other	500	-
Nonoperating Revenues		
Federal grants	243,343	148,652
State grants	6,206	5,719
Total revenue	1,100,249	935,936
Operating Expenses		
Salaries	323,518	279,392
Fringe benefits	113,954	101,667
Purchased services	527,867	439,425
Materials and supplies	33,125	16,202
Property taxes	12,154	-
Depreciation (unallocated)	23,345	22,661
Other expenses	20,391	8,075
Total operating expenses	1,054,354	867,422
Nonoperating Expenses		
Interest	2,067	6,719
Taxes	-	(6,474)
Total nonoperating expenses	2,067	245
Total expenses	1,056,421	867,667
Increase in Net Assets	\$ 43,828	\$ 68,269

Net assets (deficit) increased by \$43,828. This was due primarily to an increase in foundation payments. Revenue increased as a result of an increase in students and an increase in federal funding. There was an increase in revenues of \$164,313 and an increase in expenses of \$188,754 from 2008. Of the increase in revenue, foundation payments increased by \$68,795 and funding from federal grants increased \$94,691. Community schools receive no support from tax revenues.

Toledo Preparatory Academy

Management's Discussion and Analysis (Continued)

The expense for salaries increased \$44,126 and the expense for fringe benefits increased \$12,287 from 2008. This was due primarily to an increase in new staff during fiscal year 2009. Property taxes increased \$12,154, which related to the new facility lease during 2009.

Capital Assets

At the end of fiscal year 2009, the Academy had \$39,332 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represented an increase of \$1,594 from 2008. Table 3 shows fiscal years 2009 and 2008 capital assets (net of depreciation):

	2009	2008
Leasehold improvements	\$ 3,489	\$ -
Library books	6,259	11,257
Furniture, fixtures, and equipment	29,584	26,481
Total capital assets	<u>\$ 39,332</u>	<u>\$ 37,738</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 2008-2009 school year, there were approximately 118 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Poverty Based Assistance Program) for fiscal year 2009 amounted to \$850,200.

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

Statement of Net Assets (Deficit) June 30, 2009

Assets

Current assets:

Cash (Note 3)	\$ 13,494
Intergovernmental receivables (Note 4)	49,588
Prepaid expenses	<u>11,701</u>

Total current assets 74,783

Noncurrent assets:

Deposits	10,295
Depreciable capital assets - Net (Note 5)	<u>39,332</u>

Total assets 124,410

Liabilities - Current

Accounts payable	33,983
Contracts payable (Note 13)	150,445
Capital lease payable (Note 6)	230,000
Deferred revenue	<u>106</u>

Total liabilities 414,534

Net Assets (Deficit)

Invested in capital assets - Net of related debt	39,332
Unrestricted	<u>(329,456)</u>

Total net deficit \$ (290,124)

Toledo Preparatory Academy

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2009

Operating Revenues	
Foundation payments	\$ 814,778
Poverty Based Assistance	35,422
Other revenues	<u>500</u>
Total operating revenues	850,700
Operating Expenses	
Salaries	323,518
Fringe benefits	113,954
Purchased services (Note 11)	527,867
Materials and supplies	33,125
Property taxes	12,154
Depreciation	23,345
Other	<u>20,391</u>
Total operating expenses	<u>1,054,354</u>
Operating Loss	(203,654)
Nonoperating Revenues (Expense)	
Federal grants	243,343
State grants	6,206
Interest	<u>(2,067)</u>
Total nonoperating revenues	<u>247,482</u>
Change in Net Assets (Deficit)	43,828
Net Deficit - Beginning of year	<u>(333,952)</u>
Net Deficit - End of year	<u>\$ (290,124)</u>

Toledo Preparatory Academy

Statement of Cash Flows Year Ended June 30, 2009

Cash Flows from Operating Activities	
Received from Foundation payments	\$ 809,719
Received from Poverty Based Assistance	40,481
Received from other operating revenues	175
Payments to suppliers for goods and services	(598,342)
Payments to employees for services	(312,955)
Payments for employee benefits	<u>(113,954)</u>
Net cash used in operating activities	(174,876)
Cash Flows from Noncapital Financing Activities	
Proceeds from notes payable	150,000
Payments on notes payable	(177,778)
Federal grants received	243,343
State grants received	<u>6,206</u>
Net cash provided by noncapital financing activities	221,771
Cash Flows from Capital and Related Financing Activities	
Interest payments and fiscal charges	(2,067)
Payments on notes payable	<u>(37,304)</u>
Net cash used in capital and related financing activities	(39,371)
Cash Flows from Investing Activities - Purchase of capital assets	<u>(24,939)</u>
Net Decrease in Cash	(17,415)
Cash - Beginning of year	<u>30,909</u>
Cash - End of year	<u><u>\$ 13,494</u></u>

Toledo Preparatory Academy

Statement of Cash Flows (Continued) Year Ended June 30, 2009

Reconciliation of operating loss to net cash from operating activities:	
Operating loss	\$ (203,654)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	23,345
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(26,413)
Decrease in prepaid expenses	6,044
Increase in accounts payable	19,237
Increase in contracts payable	6,890
Decrease in deferred revenue	<u>(325)</u>
Total adjustments	<u>28,778</u>
Net cash used in operating activities	<u>\$ (174,876)</u>

Toledo Preparatory Academy

Notes to Financial Statements June 30, 2009

Note 1 - Description of the School and Reporting Entity

Toledo Preparatory 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.

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, 2009 totaled approximately \$26,000.

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 certified full-time teaching personnel who provide services to 118 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

Notes to Financial Statements June 30, 2009

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

Notes to Financial Statements June 30, 2009

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, 2009 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, 2009 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

Notes to Financial Statements June 30, 2009

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) 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 tax exempt under §501(c)(3) of the Internal Revenue Code.

Toledo Preparatory Academy

Notes to Financial Statements June 30, 2009

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 credit risk are used for the Academy's deposits; however, the Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. In October 2008, the FDIC implemented the "Transaction Account Guarantee Program" fully guaranteeing noninterest and some interest-bearing checking account balances through December 31, 2009, regardless of the amount in the account. At June 30, 2009, the Academy's deposit balance of \$19,472 had no bank deposits (checking and savings accounts) that were uninsured and uncollateralized.

Note 4 - Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

Title I	\$	35,637
Title IIa		2,353
Special Education Grants		490
Mentor Grant		7,194
Child Nutrition		3,414
Other		500
		<hr/>
Total all intergovernmental receivables	\$	<u>49,588</u>

Toledo Preparatory Academy

Notes to Financial Statements June 30, 2009

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Balance June 30, 2009
Business-type Activity			
Capital assets being depreciated:			
Leasehold improvements	\$ -	\$ 7,494	\$ 7,494
Library books	30,004		30,004
Furniture, fixtures, and equipment	<u>177,895</u>	<u>17,445</u>	<u>195,340</u>
Total capital assets being depreciated	207,899	24,939	232,838
Less accumulated depreciation:			
Leasehold improvements	-	4,005	4,005
Library books	18,747	4,998	23,745
Furniture, fixtures, and equipment	<u>151,414</u>	<u>14,342</u>	<u>165,756</u>
Total accumulated depreciation	<u>170,161</u>	<u>23,345</u>	<u>193,506</u>
Net capital assets being depreciated	<u>\$ 37,738</u>	<u>\$ 1,594</u>	<u>\$ 39,332</u>

Note 6 - Note and Capital Lease Payables

Debt activity during 2009 was as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Capital lease payable - Hess Family, Ltd.	\$ 230,000	\$ -	\$ -	\$ 230,000
Note payable - Hess Family, Ltd.	<u>37,304</u>	<u>-</u>	<u>(37,304)</u>	<u>-</u>
Total	<u>\$ 267,304</u>	<u>\$ -</u>	<u>\$ (37,304)</u>	<u>\$ 230,000</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 loan was paid in full in fiscal year 2009.

Toledo Preparatory Academy

Notes to Financial Statements June 30, 2009

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:

2010	\$	326,000
Less amount representing interest		<u>96,000</u>
Present value of minimum lease payments	\$	<u><u>230,000</u></u>

As of the report date, the remaining lease payment had not been made and no demand for payment had been made.

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 2009, the Academy contracted with The Ohio Casualty Insurance 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.

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, 9.09 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, 2009, 2008, and 2007 were \$4,892, \$4,145, and \$3,484, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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.

Note 8 - Defined Benefit Pension Plans (Continued)

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.

For the fiscal year ended June 30, 2009, 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 2008, 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, 2009, 2008, and 2007 were \$30,947, \$28,781, and \$27,073, 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 2009 were \$32,248 made by the Academy and \$23,034 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 E. 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, 4.16 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 \$2,239.

Active employee members do not contribute to the Health Care Fund. 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, 2009, 2008, and 2007 were \$2,239, \$1,891, and \$1,768, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$404, \$299, and \$35, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

Note 9 - Postemployment Benefits (Continued)

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 2009, 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, 2009, 2008, and 2007 were \$2,381, \$2,214, and \$2,083, respectively; 94 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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, 2009.

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 2009, 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, 2009.

Toledo Preparatory Academy

Notes to Financial Statements June 30, 2009

Note 11 - Purchased Service Expense

For the year ended June 30, 2009, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	\$	20,676
Legal		8,519
Insurance		20,264
Advertising		4,251
Dues and fees		23,648
Ohio Council of Community Schools		25,551
The Leona Group, LLC (Note 13)		175,856
Cleaning services		1,954
Utility		31,031
Building lease agreement		54,000
Other professional services		155,300
Other rentals and leases		<u>6,817</u>
Total purchased services	\$	<u>527,867</u>

Note 12 - Operating Leases

On July 1, 2008, the Academy entered into a lease for the period from July 1, 2008 through June 30, 2013 with The Leona Group, LLC, with an annual rent of \$54,000 due in equal monthly installments beginning July 1, 2008, for the use of a school facility. The Academy is responsible for all utilities. Payments made under the lease totaled \$54,000 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2009:

Years Ending June 30	Amount
2010	\$ 54,000
2011	54,000
2012	54,000
2013	<u>54,000</u>
Total minimum lease payments	<u>\$ 216,000</u>

Toledo Preparatory Academy

Notes to Financial Statements June 30, 2009

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 \$175,856 for the year ended June 30, 2009. At June 30, 2009, contracts payable include \$101,211 for the payment of management fees and \$49,234 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 Preparatory Academy

Notes to Financial Statements June 30, 2009

Note 13 - 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, 2009, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:

Salaries	\$ 323,518
Fringe benefits	113,954
Professional and technical services	47,868
Other direct costs	<u>12,309</u>
Total expenses	<u>\$ 497,649</u>

Note 14 - State Aid Note

During the fiscal year, the Academy borrowed \$150,000 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 3.25 percent at June 30, 2009 and the note was paid in full on June 30, 2009.

Note 15 - Management Plans

Toledo Preparatory Academy's student enrollments for the 2007-2008 school year and at the beginning of the 2008-2009 school year were substantially below the Academy's initial forecast and below the level necessary for the Academy to function financially without financial assistance from the management company.

The Academy has entered into an agreement with the management company, whereby the management company has agreed to provide sufficient working capital to enable the Academy to operate during 2009. In addition, the Academy has undertaken an extensive marketing campaign to increase enrollment during 2009.

Toledo Preparatory Academy

Notes to Financial Statements June 30, 2009

Note 16 - Subsequent Events

Subsequent to year end, the Academy borrowed \$200,000 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, 2010.

Independent Accountant's Report on Applying Agreed-upon Procedures

Toledo Preparatory Academy
Lucas County
540 Independence Road
Toledo, Ohio 43607

To the Board of Directors:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the board, solely to assist the board in evaluating whether Toledo Preparatory Academy (the “Academy”) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the board adopted an anti-harassment policy at its meeting on August 20, 2009.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666
 - (3) A procedure for reporting prohibited incidents
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident
- (6) A procedure for documenting any prohibited incident that is reported
- (7) A procedure for responding to and investigating any reported incident
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the board and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 4, 2010



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
APRIL 1, 2010