Toledo Preparatory Academy
Lucas County

Financial Report

June 30, 2010

Dave Yost • Auditor of State

January 18, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

DAVE YOST
Auditor of State

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.auditor.state.oh.us

Mary Taylor, CPA
Auditor of State

Board of Directors
Toledo Preparatory Academy
540 Independence Road
Toledo, Ohio 43607

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, 2009 through June 30, 2010. 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

January 6, 2011

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

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, 2010 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, 2010 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 November 30, 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

November 30, 2010

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

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 (the "Academy") as of and for the year ended June 30, 2010 and have issued our report thereon dated November 30, 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

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

November 30, 2010

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, 2010. 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 Standards 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 deficit decreased $59,801, which represents a 21 percent decrease from 2009. This decrease was due primarily to a decrease in total liabilities and an increase in intergovernmental receivable associated with a state funding adjustment.
- Total assets increased $31,944, which represents a 2 percent increase from 2009. This was due primarily to the increase in intergovernmental receivable referred to above.
- Total liabilities decreased $27,857, which represents an 6.8 percent decrease from 2009. This was due primarily to a decrease the payable for the renovation loan.
- There would have been a greater surplus had the renovation loan not required restructuring due to the Academy’s inability to pay off the loan by the due date.

Using this Financial Report

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

Statement of Net Assets (Deficit)

The statement of net assets (deficit) answers the question, "How did we do financially during 2010?" 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 revenue and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net deficit for fiscal years 2010 and 2009:

TABLE 1	June 30	
	2010	2009
Assets		
Current assets	$ 102,949	$ 74,783
Capital assets - Net	43,110	39,332
Other noncurrent assets	10,295	10,295
Total assets	156,354	124,410
Liabilities		
Current liabilities	180,351	414,534
Noncurrent liabilities	206,326	-
Total liabilities	386,677	414,534
Net Assets (Deficit)		
Invested in capital assets - Net of long-term debt	(194,229)	39,332
Unrestricted	(36,094)	(329,456)
Total net deficit	**$ (230,323)**	**$ (290,124)**

Total assets increased $31,944. Cash decreased by $1,563 from 2009. Intergovernmental receivables decreased by $3,902. This increase was due to the timing of the receipt of state funding. Capital assets, net of depreciation, increased by $3,778 due to new purchases.

Table 2 shows the changes in net deficit for fiscal years 2010 and 2009, as well as a listing of revenue and expenses.

TABLE 2	Year Ended June 30	
	2010	2009
Operating Revenue		
Foundation payments	$ 805,906	$ 814,778
Poverty-based assistance	49,097	35,422
Unrestricted federal stabiliation funds	55,702	-
Other	9,548	500
Nonoperating Revenue		
Federal grants	206,364	243,343
State grants	5,931	6,206
Total revenue	1,132,548	1,100,249
Operating Expenses		
Salaries	317,745	323,518
Fringe benefits	128,437	113,954
Purchased services	469,394	527,867
Materials and supplies	27,676	33,125
Property taxes	12,946	12,154
Depreciation (unallocated)	22,747	23,345
Other expenses	16,713	20,391
Total operating expenses	995,658	1,054,354
Nonoperating Expenses - Interest	77,089	2,067
Total expenses	1,072,747	1,056,421
Change in Net Deficit	**$ 59,801**	**$ 43,828**

Net deficit decreased by $59,801. This was due primarily to a decrease in operating expenses. Revenue increased as a result of an increase in federal funding. There was an increase in revenue of $32,299 and an increase in expenses of $16,326 from 2009. Of the increase in revenue, foundation payments decreased by $8,872 and funding from federal grants increased $18,723. Community schools receive no support from tax revenue.

The expense for salaries decreased $5,773 and the expense for fringe benefits increased $14,483 from 2009. This was due primarily to various increased benefit costs across the board.

Capital Assets

At the end of fiscal year 2010, the Academy had $43,110 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represented an increase of $3,778 from 2009. Table 3 shows fiscal year 2010 and 2009 capital assets (net of depreciation):

TABLE 3	2010	2009
Leasehold improvements	$ 21,750	$ 3,489
Library books	1,261	6,259
Furniture, fixtures, and equipment	20,099	29,584
Total capital assets	**$ 43,110**	**$ 39,332**

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

Current Financial Issues and Economic Factors

Toledo Preparatory Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2009-2010 school year, there were approximately 121 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 2010 totaled $855,003.

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 90 percent of revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue. The impact on the Academy of the State's projected revenue is not known.

Contacting the Academy'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, 2010

Assets	
Current assets:	
Cash (Note 3)	$ 11,931
Intergovernmental receivables (Note 4)	74,592
Prepaid expenses	16,426
Total current assets	102,949
Noncurrent assets:	
Deposits	10,295
Depreciable capital assets - Net (Note 5)	43,110
Total assets	156,354
Liabilities - Current	
Accounts payable	35,415
Contracts payable (Note 13)	113,923
Current portion of long-term debt (Note 6)	31,013
Total current liabilities	180,351
Noncurrent liabilities - Long-term debt (Note 6)	206,326
Total liabilities	386,677
Net Assets (Deficit)	
Invested in capital assets - Net of long-term debt	(194,229)
Unrestricted	(36,094)
Total net deficit	**$ (230,323)**

The Notes to Financial Statements are an
Integral Part of this Statement.

Toledo Preparatory Academy

Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)
Year Ended June 30, 2010

Operating Revenue	
Foundation payments	$ 805,906
Poverty-based assistance	49,097
Unrestricted federal stabilization funds	55,702
Other revenue	9,548
Total operating revenue	920,253
Operating Expenses	
Salaries	317,745
Fringe benefits	128,437
Purchased services (Note 11)	469,394
Materials and supplies	27,676
Property taxes	12,946
Depreciation	22,747
Other	16,713
Total operating expenses	995,658
Operating Loss	(75,405)
Nonoperating Revenue (Expense)	
Federal grants	206,364
State grants	5,931
Interest	(77,089)
Total nonoperating revenue	135,206
Change in Net Assets (Deficit)	59,801
Net Deficit - Beginning of year	(290,124)
Net Deficit - End of year	**$ (230,323)**

Statement of Cash Flows
Year Ended June 30, 2010

Cash Flows from Operating Activities	
Received from foundation payments	$ 805,906
Received from poverty-based assistance	49,097
Received from other operating revenues	65,144
Payments to suppliers for goods and service	(592,324)
Payments to employees for services	(316,969)
Payments for employee benefits	(128,437)
Net cash used in operating activities	(117,583)
Cash Flows from Noncapital Financing Activities	
Proceeds from notes payable	200,000
Payments on notes payable	(200,000)
Federal grants received	206,364
State grants received	5,931
Net cash provided by noncapital financing activities	212,295
Cash Flows from Capital and Related Financing Activities	
Interest payments and fiscal charges	(19,750)
Payments on capital lease	(50,000)
Net cash used in capital and related financing activities	(69,750)
Cash Flows from Investing Activities - Purchase of capital assets	(26,525)
Net Decrease in Cash	(1,563)
Cash - Beginning of year	13,494
Cash - End of year	**$ 11,931**

Noncash, Noncapital, and Capital Financing Activities - The Academy increased its note payable of $57,339, which was recorded as interest expense for the year ended June 30, 2010 for unpaid accrued interest (see Note 6).

Reconciliation of operating loss to net cash from operating activities:	
Operating loss	$ (75,405)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	22,747
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(25,004)
Increase in prepaid expenses	(4,725)
Increase in accounts payable	1,432
Decrease in contracts payable	(36,522)
Decrease in deferred revenue	(106)
Total adjustments	(42,178)
Net cash used in operating activities	**$ (117,583)**

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 6 through 12. 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, 2010 totaled approximately $25,000.

The Academy operates under the direction of a five-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 121 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).

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 revenue 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., revenue) 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.

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, 2010 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, 2010 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.

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 Revenue and Expenses - Operating revenue is that revenue that is generated directly from the primary activities. For the Academy, this revenue is primarily foundation payments. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenue 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 Revenue - The Academy currently participates in the State Foundation Program and the State Poverty Based Assistance (PBA) Program. Revenue received from these programs is recognized as operating revenue 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.

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 sometimes impractical to insure all deposits. At June 30, 2010, the Academy's deposit balance of $12,743 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	$ 20,270
Title I SIP	15,920
Title I ARRA	4,025
Title IIa	1,238
Child nutrition	3,646
State aid fiscal year 2010 adjustment	28,906
Other	587
Total	$ 74,592

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010 is as follows:

	June 30, 2009	Additions	June 30, 2010
Business-type Activity			
Capital assets being depreciated:			
Leasehold improvements	$ 7,494	$ 23,641	$ 31,135
Library books	30,004	-	30,004
Furniture, fixtures, and equipment	195,340	2,884	198,224
Total capital assets being depreciated	232,838	26,525	259,363
Less accumulated depreciation:			
Leasehold improvements	4,005	5,380	9,385
Library books	23,745	4,998	28,743
Furniture, fixtures, and equipment	165,756	12,369	178,125
Total accumulated depreciation	193,506	22,747	216,253
Net capital assets being depreciated	$ 39,332	$ 3,778	$ 43,110

Note 6 - Long-term Debt

Long term debt can be summarized as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
Long-term debt - Hess Family, Ltd.	$ 230,000	$ 57,339	$ (50,000)	$ 237,339

During the year, the Academy obtained long-term financing via a note payable. The proceeds were used to repay the outstanding balance of the capital lease. The note is payable in five annual installments of $50,000 and one final installment of $59,830. Each payment includes interest on the unpaid principal balance from the date of the note at the rate of 8 percent per annum until maturity. Unpaid accrued interest on the capital lease has been included in the balance of the new note and included in interest expense in the current year.

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above note are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2011	$ 31,013	$ 18,987	$ 50,000
2012	33,494	16,506	50,000
2013	36,173	13,827	50,000
2014	39,067	10,933	50,000
2015	42,193	7,807	50,000
2016	55,399	4,431	59,830
Total	$ 237,339	$ 72,491	$ 309,830

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 2010, 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

Plan Description - 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 may be obtained by writing to the School Employees' Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - For the fiscal year ended June 30, 2010, 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 2010, 12.78 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, 2010, 2009, and 2008 were $11,363, $4,892, and $4,145, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2010 and 2008.

State Teachers Retirement System

Plan Description - 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 website at www.strsoh.org.

Note 8 - Defined Benefit Pension Plans (Continued)

New members have a choice of three retirement plans: a defined benefit (DBP) plan, a defined contribution (DCP) plan, or a combined plan (CP). The DBP 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 DCP 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 CP offers features of both the DCP and the DBP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age 60; the DCP 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 DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were $35,682, $30,947, and $28,781, respectively; 91 percent has been contributed for fiscal year 2010, 85 percent for fiscal year 2009, and 100 percent for fiscal year 2008. Contributions to the DCP and CP for fiscal year 2010 were $37,665 made by the Academy and $26,903 made by the plan members.

Note 9 - Postemployment Benefits

School Employees' Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple-employer defined benefit OPEB plans administered by the School Employees' Retirement System (the "System") for classified 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.

Funding Policy - 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 401(h). For fiscal year 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount.

Active employee members do not contribute to the Health Care 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, 2010, 2009, and 2008 were $409, $2,239, and $1,891, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2010 and 2008.

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were $676, $404, and $299, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2010 and 2008.

Note 9 - Postemployment Benefits (Continued)

State Teachers Retirement System

Plan Description - 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.

Funding Policy - 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 fiscal year 2010, 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, 2010, 2009, and 2008 were $2,745, $2,381, and $2,214, respectively; 91 percent has been contributed for fiscal year 2010, 94 percent for fiscal year 2009, and 100 percent for fiscal year 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, 2010.

Note 11 - Purchased Service Expense

For the year ended June 30, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	$	20,797
Legal		1,842
Insurance		17,962
Advertising		14,891
Dues and fees		27,820
Ohio Council of Community Schools		24,783
The Leona Group, LLC (Note 13)		195,004
Cleaning services		1,440
Utility		21,720
Building lease agreement (Note 12)		54,000
Other professional services		84,753
Other rentals and leases		4,382
Total purchased services	$	469,394

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, 2010:

Years Ending June 30			Amount
2011		$	54,000
2012			54,000
2013			54,000
	Total minimum lease payments	$	162,000

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 revenue over expenses, if any. The Academy incurred a management fee totaling $195,004 for the year ended June 30, 2010. At June 30, 2010, contracts payable include $68,363 for the payment of management fees and $45,560 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.

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, 2010, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	$ 317,745
Fringe benefits	128,437
Professional and technical services	195,364
Other direct costs	64,189
Total expenses	$ 705,735

Note 14 - State Aid Note

During the fiscal year, the Academy borrowed $200,000 in a state aid note. The note was guaranteed by the management company. The note bore interest at a variable annual interest rate equal to the prime rate, as determined by the registered owner. The effective rate was 3.25 percent at June 30, 2010 and the note was paid in full on June 30, 2010.

Note 15 - Management Plans

Toledo Preparatory Academy's student enrollments for the 2009-2010 school year were below the initial forecast.

The Academy has undertaken an extensive marketing campaign to increase enrollment during 2010-2011.

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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
JANUARY 18, 2011

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us