Toledo Preparatory Academy
Lucas County

Financial Report

June 30, 2011

Dave Yost • 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, 2010 through June 30, 2011. 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.

Dave Yost

Dave Yost
Auditor of State

March 26, 2012

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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, 2011 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, 2011 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 15, 2011 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 15, 2011

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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*

Independent Auditor's Report

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, 2011 and have issued our report thereon dated November 15, 2011. 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.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy'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. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

During our audit testing, we noted that the Academy incurred eligible expenditures under the IDEA, Title I, and Title I ARRA grants but did not request reimbursement for certain expenditures or record these funds as earned through revenue for the 2011 fiscal year. Subsequent to our audit testing, management had requested reimbursement for these expenditures. Audit entries were proposed and recorded to record revenue and accounts receivable of $10,211 as of June 30, 2011 to recognize that these funds were earned.

To the Board of Directors
Toledo Preparatory Academy

The Academy should review all grant expenditures at year end and ensure that revenue is recorded on all appropriately earned grant funds. The Academy indicated a procedure has been developed to ensure that grant funds expended but not received by year end will be recorded properly as revenue and accounts receivable. The Academy agrees that the proper recognition of revenue for allowable expenditures is essential and every attempt is made to ensure accurate recording.

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 15, 2011

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, 2011. 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 $75,351, which represents a 33 percent decrease from 2010. This decrease was due primarily to an increase in current assets, mostly cash.
- Total assets increased $65,133, which represents a 42 percent increase from 2010. This was due primarily to the increase in cash referred to above.
- Total liabilities decreased $10,218, which represents a 3 percent decrease from 2010. This was due primarily to a decrease in the payable for the renovation loan.

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 2011?" 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 2011 and 2010:

TABLE 1	June 30	
	2011	2010
Assets		
Current assets	$ 166,467	$ 102,949
Capital assets - Net	44,725	43,110
Other noncurrent assets	10,295	10,295
Total assets	221,487	156,354
Liabilities		
Current liabilities	203,627	180,351
Noncurrent liabilities	172,832	206,326
Total liabilities	376,459	386,677
Net Assets (Deficit)		
Invested in capital assets	44,725	43,110
Unrestricted	(199,697)	(273,433)
Total net deficit	**$ (154,972)**	**$ (230,323)**

Total assets increased $65,133. Cash increased by $101,858 from 2010. Intergovernmental receivables decreased by $29,604. This decrease was due to the timing of the receipt of federal funding. Capital assets, net of depreciation, increased by $1,615 due to new purchases.

Table 2 shows the changes in net deficit for fiscal years 2011 and 2010, as well as a listing of revenue and expenses.

TABLE 2	Year Ended June 30	
	2011	2010
Operating Revenue		
Foundation payments	$ 806,219	$ 805,906
Poverty-based assistance	36,707	49,097
Unrestricted federal stabilization funds	72,295	55,702
Other	15,140	9,548
Nonoperating Revenue		
Federal grants	198,671	206,364
State grants	5,896	5,931
Total revenue	1,134,928	1,132,548
Operating Expenses		
Salaries	362,026	317,745
Fringe benefits	131,002	128,437
Purchased services	483,105	469,394
Materials and supplies	20,483	27,676
Property taxes	12,861	12,946
Depreciation (unallocated)	20,440	22,747
Other expenses	14,323	16,713
Total operating expenses	1,044,240	995,658
Nonoperating Expenses - Interest	15,337	77,089
Total expenses	1,059,577	1,072,747
Change in Net Deficit	**$ 75,351**	**$ 59,801**

Net deficit decreased by $75,351. This was due primarily to a decrease in nonoperating expenses. Revenue increased slightly as a result of an increase in federal funding. There was an increase in revenue of $2,380 and a decrease in expenses of $13,170 from 2010. Of the increase in revenue, foundation payments increased by $313 and funding from federal grants increased $8,900. Community schools receive no support from tax revenue.

The expense for salaries increased $44,281 and the expense for fringe benefits increased $2,565 from 2010. Interest expense decreased $61,752 from 2010.

Capital Assets

At the end of fiscal year 2011, the Academy had $44,725 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represented an increase of $1,615 from 2010. Table 3 shows fiscal years 2011 and 2010 capital assets (net of depreciation):

TABLE 3	2011	2010
Leasehold improvements	$ 16,498	$ 21,750
Library books	-	1,261
Furniture, fixtures, and equipment	28,227	20,099
Total capital assets	**$ 44,725**	**$ 43,110**

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 2010-2011 school year, there were approximately 115 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 2011 totaled $842,926.

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 74 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, 2011

Assets	
Current assets:	
Cash (Note 3)	$ 113,789
Intergovernmental receivables (Note 4)	44,483
Other receivables	8,195
Total current assets	166,467
Noncurrent assets:	
Deposits	10,295
Depreciable capital assets - Net (Note 5)	44,725
Total assets	221,487
Liabilities - Current	
Accounts payable	41,563
Contracts payable (Note 13)	128,570
Current portion of long-term debt (Note 6)	33,494
Total current liabilities	203,627
Noncurrent liabilities - Long-term debt (Note 6)	172,832
Total liabilities	376,459
Net Assets (Deficit)	
Invested in capital assets	44,725
Unrestricted	(199,697)
Total net deficit	**$ (154,972)**

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, 2011

Operating Revenue	
Foundation payments	$ 806,219
Poverty-based assistance	36,707
Unrestricted federal stabilization funds	72,295
Other revenue	15,140
Total operating revenue	930,361
Operating Expenses	
Salaries	362,026
Fringe benefits	131,002
Purchased services (Note 11)	483,105
Materials and supplies	20,483
Property taxes	12,861
Depreciation	20,440
Other	14,323
Total operating expenses	1,044,240
Operating Loss	(113,879)
Nonoperating Revenue (Expense)	
Federal grants	198,671
State grants	5,896
Interest	(15,337)
Total nonoperating revenue	189,230
Change in Net Assets (Deficit)	75,351
Net Deficit - Beginning of year	(230,323)
Net Deficit - End of year	**$ (154,972)**

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

Toledo Preparatory Academy

Statement of Cash Flows
Year Ended June 30, 2011

Cash Flows from Operating Activities	
Received from foundation payments	$ 806,219
Received from poverty-based assistance	36,707
Received from other operating revenue	15,140
Received from federal government	72,295
Payments to suppliers for goods and services	(481,626)
Payments to employees for services	(352,037)
Payments for employee benefits	(131,002)
Net cash used in operating activities	(34,304)
Cash Flows from Noncapital Financing Activities	
Federal grants received	198,671
State grants received	5,896
Net cash provided by noncapital financing activities	204,567
Cash Flows from Capital and Related Financing Activities	
Interest payments and fiscal charges	(15,337)
Payments on long-term debt	(31,013)
Net cash used in capital and related financing activities	(46,350)
Cash Flows from Investing Activities - Purchase of capital assets	(22,055)
Net Increase in Cash	101,858
Cash - Beginning of year	11,931
Cash - End of year	**$ 113,789**

Statement of Cash Flows (Continued)
Year Ended June 30, 2011

Reconciliation of operating loss to net cash from operating activities:	
Operating loss	$ (113,879)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	20,440
Changes in assets and liabilities:	
Decrease in receivables	21,914
Decrease in prepaid expenses	16,426
Increase in accounts payable	6,148
Increase in contracts payable	14,647
Total adjustments	79,575
Net cash used in operating activities	**$ (34,304)**

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, 2011 totaled approximately $23,000.

The Academy operates under the direction of a four-member board of directors which is also the governing board for one other The Leona Group, LLC-managed school. The board of directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The board of directors controls the Academy's instructional/support facility staffed by five certified full-time teaching personnel who provide services to 115 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.

Receivables - Receivables at June 30, 2011 consisted of intergovernmental receivables and other 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, 2011 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. 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 one bank 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, 2011, the Academy's deposit balance of $117,243 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	$	21,869
Title I ARRA		12,811
Title IIA		1,466
IDEA		4,668
Race to the Top		192
Child nutrition		2,803
Other		674
Total	$	44,483

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Business-type Activity				
Capital assets being depreciated:				
Leasehold improvements	$ 31,135	$ 2,250	$ -	$ 33,385
Library books	30,004	-	-	30,004
Furniture, fixtures, and equipment	198,224	19,805	(155)	217,874
Total capital assets being depreciated	259,363	22,055	(155)	281,263
Less accumulated depreciation:				
Leasehold improvements	9,385	7,502	-	16,887
Library books	28,743	1,261	-	30,004
Furniture, fixtures, and equipment	178,125	11,677	(155)	189,647
Total accumulated depreciation	216,253	20,440	(155)	236,538
Net capital assets being depreciated	$ 43,110	$ 1,615	$ -	$ 44,725

Note 6 - Long-term Debt

Long term debt can be summarized as follows:

	Balance July 1, 2010	Reductions	Balance June 30, 2011	Due Within One Year
Long-term debt - Hess Family, Ltd.	$ 237,339	$ (31,013)	$ 206,326	$ 33,494

During the previous year, the Academy obtained long-term financing via a note payable of $237,339. 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, and is not collateralized. 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.

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
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	$ 206,326	$ 53,504	$ 259,830

Total interest expense on the note for the fiscal year ended June 30, 2011 was $15,337.

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 2011, the Academy contracted with Philadelphia Indemnity 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	$ 9,000,000
Total per year	9,000,000
General liability:	
Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	1,000,000

Note 7 - Risk Management (Continued)

Workers' Compensation - The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

Note 8 - Defined Benefit Pension Plans

School Employees' Retirement System

Plan Description - The Academy contributes to the School Employees' Retirement System (SERS), a cost-sharing, multiple-employer 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, 2011, 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 2011, 11.81 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, 2011, 2010, and 2009 were $8,071, $11,363, and $4,892, respectively; 100 percent has been contributed for fiscal years 2011 and 2010 and 84 percent for fiscal year 2009.

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 of 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, 2011, 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, 2011, 2010, and 2009 were $35,376, $35,682, and $30,947, respectively; 99 percent has been contributed for fiscal year 2011, 91 percent for fiscal year 2010, and 85 percent for fiscal year 2009. Contributions to the DCP and CP for fiscal year 2011 were $37,904 made by the Academy and $27,212 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 2011, 1.43 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 fiscal year 2011, the surcharge amount was $1,343.

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, 2011, 2010, and 2009 were $977, $409, and $2,239, respectively; 100 percent has been contributed for fiscal years 2011 and 2010 and 84 percent has been contributed for fiscal year 2009.

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were $519, $676, and $404, respectively; 100 percent has been contributed for fiscal years 2011 and 2010 and 84 percent has been contributed for fiscal year 2009.

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 2011, 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, 2011, 2010, and 2009 were $2,721, $2,745, and $2,381, respectively; 99 percent has been contributed for fiscal year 2011, 91 percent for fiscal year 2010, and 94 percent for fiscal year 2009.

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, 2011.

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 the state foundation funding is calculated. For the 2011 fiscal year, the results of this review are not yet 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, 2011.

Note 11 - Purchased Service Expense

For the year ended June 30, 2011, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	$	31,299
Legal		1,107
Insurance		17,868
Advertising		9,307
Dues and fees		26,356
Ohio Council of Community Schools		30,985
The Leona Group, LLC (Note 13)		195,263
Cleaning services		4,146
Utility		15,015
Building lease agreement (Note 12)		54,000
Other professional services		94,915
Other rentals and leases		2,844
Total purchased services	$	483,105

Note 12 - Operating Leases

On July 1, 2008, the Academy entered into a lease for the period from July 1, 2009 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, 2011:

Years Ending June 30		Amount
2012		$ 54,000
2013		54,000
	Total minimum lease payments	$ 108,000

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 $195,263 for the year ended June 30, 2011. At June 30, 2011, contracts payable include $65,937 for the payment of management fees and $62,633 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, 2011, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	$ 362,026
Fringe benefits	131,002
Professional and technical services	204,370
Other direct costs	62,624
Total expenses	$ 760,022

Note 14 - Management Plans

Toledo Preparatory Academy's student enrollments for the 2010-2011 school year were below the initial forecast and the Academy has a net deficit as of June 30, 2011, which resulted in some doubt about the Academy's ability to continue as a going concern.

The Academy continues to have enrollment issues in 2011-2012. All attempts are being made to increase enrollment and we see it as imperative that the Academy enroll and retain students. The Academy has had net income over the past few years and has been steadily decreasing the net deficit. The Academy also anticipates net income for fiscal year 2012 and sufficient cash flows for paying all current operating expenses per the Academy's budgeting process. As such, there is not a substantial doubt about the Academy's ability to continue as a going concern due to the plans of the Academy.

Note 15 - Upcoming Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the Academy's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets (deficit). This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet.

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Independent Accountant's Report on
Applying Agreed-upon Procedures

To the Board of Directors
Toledo Preparatory Academy
Lucas County
540 Independence Rd.
Toledo, OH 43607

Dear Board Members:

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 procedure enumerated below, which was agreed to by the board, solely to assist the board in evaluating whether Toledo Preparatory Academy has updated its 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 this procedure is solely the responsibility of the board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted that the board amended its anti-harassment policy at its meeting on March 18, 2010 to include violence within a dating relationship within its definition of harassment, intimidation, or bullying.

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 Toledo Preparatory Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

February 6, 2012

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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 5, 2012

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