Toledo Preparatory Academy
(Formerly Toledo Accelerated Academy)
Lucas County

Financial Report

June 30, 2007

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Toledo Preparatory Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2006 through June 30, 2007. 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

December 17, 2007

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Toledo Preparatory Academy
Lucas County

Contents

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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 as of and for the year ended June 30, 2007, 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, 2007 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 9, 2007 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 9, 2007

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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*

To the Board of Directors
Toledo Preparatory Academy

We have audited the basic financial statements of Toledo Preparatory Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Toledo Preparatory Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Toledo Preparatory Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Toledo Preparatory Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

To the Board of Directors
Toledo Preparatory Academy

- Bonuses should be recorded as an expense for the year to which they relate. The Academy mistakenly recorded the amount of the accrual for bonuses twice. An adjustment to decrease the expense and the accrual for $1,038 is included in the summary of unrecorded possible adjustments. Currently, total expenses and liabilities are overstated by this amount. We recommend that someone other than the person recording the entry review the detail of the accruals to ensure that they are properly recorded and the balances are accurate.

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

1. The Academy modified its lease agreement to defer nine months of rent related to the fiscal year ended June 30, 2007 to the years ending June 30, 2008 and 2009. Rent should be recorded as an expense and a payable on the Academy's records as it is incurred. This expense and payable were omitted from the Academy's records prior to the audit of the financial statements, resulting in an audit adjustment of $81,391. In order to prevent and detect such misstatements from occurring in the future, we recommend that accounting personnel review all significant agreements entered into by the Academy to ensure the financial effects, if any, are properly reflected in the accounting records

2. The Academy relocated to a new facility, abandoning its leasehold improvements. SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires the removal of abandoned assets from the accounting records. The leasehold improvements were not removed from the accounting records prior to the audit of the financial statements, resulting in an audit adjustment of $217,466 to depreciation expense and the removal of $523,947 of leasehold improvements recorded at historical cost. In order to prevent and detect such misstatements from occurring in the future, we recommend that accounting personnel review all significant agreements entered into by the Academy to ensure the financial effects, if any, are properly reflected in the accounting records.

3. Accounting principles generally accepted in the United States of America require that the useful lives of assets held under lease agreements, for which ownership of the asset does not transfer to the lessee at the end of the lease and the lessee does not have a bargain-purchase option, do not exceed the terms of the lease agreements. The fixed asset records contained useful lives that exceeded the term of the Academy's lease agreement. An audit adjustment was not recorded because the assets were written off in full during the current year, as discussed in the material weakness above. In order to prevent and detect such misstatements from occurring in the future, we recommend that the accounting personnel review the terms of all significant agreements entered into by the Academy to ensure the useful lives of assets are properly reflected in the accounting records.

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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Ohio Revised Code Section 3314.03A states that community schools established prior to April 8, 2003 must be nonprofit corporations under ORC 1702. The Academy was established prior to April 8, 2003 and was subsequently denied nonprofit status under Section 501(c)(3) under the Internal Revenue Code because of the previous board of director's relationship with the management company. The board was recently reorganized in order to comply with the provisions for nonprofit status. Actions have since been taken to obtain nonprofit status. In addition, Ohio Revised Code Section 3314.082 prohibits community schools from using foundation money to pay taxes, including federal, state, and local income taxes, sales taxes, and personal and real property taxes. However, the Academy's for-profit status requires it to pay income taxes. We recommend that the Academy continue to monitor and follow up on any issues related to obtaining nonprofit status.

We also noted certain immaterial instances of noncompliance and other matters that we have reported to the management of Toledo Preparatory Academy in a separate letter dated November 9, 2007.

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

Plante & Moran, PLLC

November 9, 2007

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, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets decreased $381,377, which represents an 1,830 percent decrease from 2006. This decrease was due primarily to an increase in depreciation expense due to the write-off of leasehold improvements made at its previous location and a decrease in federal revenue without a proportionate decrease in expenses.
- Total assets decreased $382,627, which represents a 82 percent decrease from 2006. This was due primarily to the decrease in net capital assets due to depreciation expense and the write-off leasehold improvements made at its previous location.

Using this Financial Report

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

Statement of Net Assets

The statement of net assets (deficit) answers the question, "How did we do financially during 2007?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets (deficit) for fiscal years 2007 and 2006:

TABLE 1	June 30	
	2007	2006
Assets		
Current assets	$ 15,874	$ 28,921
Capital assets - Net	59,306	428,886
Other noncurrent assets	10,295	10,295
Total assets	85,475	468,102
Liabilities		
Current liabilities	217,001	234,946
Noncurrent liabilities	270,695	254,000
Total liabilities	487,696	488,946
Net Assets (Deficit)		
Invested in capital assets	(220,694)	124,886
Unrestricted	(181,527)	(145,730)
Total net assets (deficit)	**$ (402,221)**	**$ (20,844)**

Total assets decreased $382,627. This was due primarily to the depreciation of capital assets and the write-off of leasehold improvements made at the Academy's previous location. Cash increased by $1,582 from 2006. Intergovernmental receivables decreased by $5,585. This decrease was due to the timing of the receipt of funding. Capital assets, net of depreciation, decreased by $369,580, due primarily to the depreciation of furniture, fixtures, equipment, library books, and leasehold improvements and a write-off of $217,466 of leasehold improvements that were deemed to be impaired due to the Academy relocating to a different facility during 2007.

Table 2 shows the changes in net assets for fiscal years 2007 and 2006, as well as a listing of revenues and expenses.

TABLE 2	Year Ended June 30	
	2007	2006
Operating Revenues		
Foundation payments	$ 661,740	$ 931,765
Disadvantaged Pupil Impact Aid	35,059	26,825
Charges for services	358	1,753
Other	-	725
Nonoperating Revenues		
Federal grants	130,018	174,903
State grants	9,434	7,813
Total revenue	836,609	1,143,784
Operating Expenses		
Salaries	255,003	339,492
Fringe benefits	100,417	123,538
Purchased services	418,961	501,030
Materials and supplies	13,883	24,600
Depreciation (unallocated)	369,580	155,139
Other expenses	4,545	2,621
Nonoperating Expenses		
Interest	43,778	38,955
Taxes	11,819	8,903
Total expenses	1,217,986	1,194,278
Decrease in Net Assets	**$ (381,377)**	**$ (50,494)**

Net assets decreased by $381,377. This was due primarily to an increase in depreciation expense due to a write-off of $217,466 of leasehold improvements that were deemed to be impaired due to the Academy relocating to a different facility during 2007, which would no longer be able to use those improvements, and a decrease in revenue without a proportionate decrease in expenses. Revenue decreased as a result of a decrease in students. There was a decrease in revenues of $307,175 and an increase in expenses of $23,708 from 2006. Of the decrease in revenue, foundation payments decreased by $261,791 and funding from federal grants decreased $44,885. Community schools receive no support from tax revenues.

The expense for salaries decreased $84,489 and the expense for fringe benefits decreased $23,121 from 2006. This was due primarily to a decrease in staff during fiscal year 2007. Depreciation expense increased $214,441, which related mainly to the write-off of improvements that were deemed to be impaired due to the Academy relocating to a different facility during 2007, which would no longer be able to use those improvements.

Capital Assets

At the end of fiscal year 2007, the Academy had $59,306 invested in leasehold improvements, library books, furniture, fixtures, and equipment (net of depreciation), which represented a decrease of $369,580 from 2006. Table 3 shows fiscal years 2007 and 2006 capital assets (net of depreciation):

TABLE 3	2007	2006
Leasehold improvements	$ -	$ 323,489
Library books	16,269	21,267
Furniture, fixtures, and equipment	43,037	84,130
Total capital assets	**$ 59,306**	**$ 428,886**

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

Current Financial Issues

Toledo Preparatory Academy was formed in 2001 under a contract with the Ohio Council of Community Schools. During the 2006-2007 school year, there were approximately 100 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2007 amounted to $696,799.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information contact Don Ash, Fiscal Officer of Toledo Preparatory Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or by email at don.ash@leonagroup.com.

Toledo Preparatory Academy
Lucas County

Statement of Net Assets (Deficit)
June 30, 2007

Assets	
Current assets:	
Cash (Note 3)	$ 3,791
Intergovernmental receivable (Note 4)	12,083
Total current assets	15,874
Noncurrent assets:	
Deposits	10,295
Depreciable capital assets - Net (Note 5)	59,306
Total assets	85,475
Liabilities	
Current liabilities:	
Accounts payable	17,690
Contracts payable (Note 14)	108,615
Capital lease payable - Current portion (Note 6)	50,000
Note payable - Current portion (Note 6)	40,696
Total current liabilities	217,001
Noncurrent liabilities:	
Capital lease payable - Noncurrent portion (Note 6)	230,000
Note payable - Noncurrent portion (Note 6)	40,695
Total noncurrent liabilities	270,695
Total liabilities	487,696
Net Assets (Deficit)	
Invested in capital assets - Net of related debt	(220,694)
Unrestricted	(181,527)
Total net assets (deficit)	**$ (402,221)**

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

Toledo Preparatory Academy
Lucas County

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)
Year Ended June 30, 2007

Operating Revenues	
Foundation payments	$ 661,740
Disadvantaged Pupil Impact Aid	35,059
Charges for services	358
Total operating revenues	697,157
Operating Expenses	
Salaries	255,003
Fringe benefits	100,417
Purchased services (Note 11)	418,961
Materials and supplies	13,883
Depreciation	369,580
Other	4,545
Total operating expenses	1,162,389
Operating Loss	(465,232)
Nonoperating Revenues (Expenses)	
Federal grants	130,018
State grants	9,434
Federal and state taxes	(11,819)
Interest	(43,778)
Total nonoperating revenues	83,855
Change in Net Assets	(381,377)
Net Assets (Deficit) - Beginning of year	(20,844)
Net Assets (Deficit) - End of year	**$ (402,221)**

Statement of Cash Flows
Year Ended June 30, 2007

Cash Flows from Operating Activities	
Received from foundation payments	$ 661,740
Received from Disadvantaged Pupil Impact Aid	35,059
Received from other operating revenues	358
Payments to suppliers for goods and services	(365,569)
Payments to employees for services	(267,329)
Payments for employee benefits	(95,301)
Net cash used in operating activities	(31,042)
Cash Flows from Noncapital Financing Activities	
Net payments on notes payable	(27,700)
Federal grants received	130,487
State grants received	9,434
Federal and state taxes	(11,819)
Net cash provided by noncapital financing activities	100,402
Cash Flows from Capital and Related Financing Activities	
Interest payments and fiscal charges	(43,778)
Net payments on capital lease obligation	(24,000)
Net cash used in capital and related financing activities	(67,778)
Net Increase in Cash	1,582
Cash - Beginning of year	2,209
Cash - End of year	**$ 3,791**

Statement of Cash Flows (Continued)
Year Ended June 30, 2007

Reconciliation of operating loss to net cash from operating activities:		
Operating loss	$	(465,232)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation		369,580
Changes in assets and liabilities:		
Decrease in intergovernmental receivable		5,116
Decrease in prepaid expenses		9,044
Decrease in accounts payable		(646)
Increase in contracts payable		51,096
Total adjustments		434,190
Net cash used in operating activities	**$**	**(31,042)**

Note 1 - Description of the School and Reporting Entity

Toledo Preparatory Academy (formerly Toledo Accelerated Academy) (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades sixth through twelfth. The Academy's mission is to create an environment where personal growth, academic excellence, and acceleration can thrive. By encouraging and expecting hard work academically, by enhancing personal growth through teaching of values, by expecting community involvement by assigning service projects, and by enlisting parental support through continuous communication with the school, a positive overall learning environment will be created. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy. The Academy changed its name on July 9, 2007.

On August 22, 2001, the Academy was approved for operation under contract with the Ohio Council of Community Schools (the "Sponsor") for a period of five years through June 30, 2006. The contract was subsequently renewed for a period of six years through June 30, 2012. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. Sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2007 totaled approximately $21,000.

The Academy operates under the direction of a five-member board of directors who is also the governing board for one other The Leona Group, LLC-managed school (see Note 13). The board of directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The board of directors controls the Academy's instructional/support facility staffed by three certificated full-time teaching personnel who provide services to 100 students.

The governing board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of the Academy. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel, and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee (see Note 14).

Note 2 - Summary of Significant Accounting Policies

The financial statements of Toledo Preparatory Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected to also follow private sector guidance issued after November 30, 1989 for its business-type activities. The more significant of the Academy's accounting policies are described below.

Basis of Presentation - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

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

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets (deficit). The statement of revenue, expenses, and changes in net assets (deficit) presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets (deficit). The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

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, 2007 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, 2007 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 then $10,000 per application will also be capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Net Assets (Deficit) - Net assets (deficit) represent the difference between assets and liabilities. Invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has approximately $280,000 in debt related to capital assets.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as nonoperating.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Intergovernmental Revenues - The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Tax Status - The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 2006 and has filed for an extension for fiscal year 2007. Amounts owed to the IRS and the State of Ohio at June 30, 2007 are reported on the statement of net assets (deficit) as taxes payable, if significant.

Note 3 - Deposits

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of $9,889 had no bank deposits (checking and savings accounts) that were uninsured or uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

Title I	$	10,837
Other intergovernmental (Note 9)		1,246
Total all intergovernmental receivables	$	12,083

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Disposals	Balance June 30, 2007
Business-type Activity				
Capital assets being depreciated:				
Leasehold improvements	$ 523,947	$ -	$ (523,947)	$ -
Library books	30,004	-	-	30,004
Furniture, fixtures, and equipment	176,802	-	-	176,802
Total capital assets being depreciated	730,753	-	(523,947)	206,806
Less accumulated depreciation:				
Leasehold improvements	200,458	323,489	(523,947)	-
Library books	8,737	4,998	-	13,735
Furniture, fixtures, and equipment	92,672	41,093	-	133,765
Total accumulated depreciation	301,867	369,580	(523,947)	147,500
Net capital assets being depreciated	$ 428,886	$ (369,580)	$ -	$ 59,306

Note 6 - Note and Capital Lease Payables

Debt activity during 2007 was as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Capital lease payable - Hess Family, Ltd.	$ 304,000	$ -	$ (24,000)	$ 280,000
Note payable - Citizens Bank	109,091	-	(109,091)	-
Note payable - Hess Family, Ltd.	-	81,391	-	81,391
Total	$ 413,091	$ 81,391	$ (133,091)	$ 361,391

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

Note 6 - Note and Capital Lease Payables (Continued)

Amortization of the above note payable is scheduled as follows:

Years Ending June 30		Amount
2008		$ 40,696
2009		40,695
	Total	$ 81,391

Capital Lease - The Academy entered into a lease agreement as lessee for financing the purchase of leasehold improvements. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. Total value of the capitalized leasehold improvements was $500,000, with accumulated depreciation of $500,000 at year end. During the year, $217,466 of leasehold improvements were deemed to be impaired due to the Academy relocating to a different facility during 2007. The lease is secured by all furniture, fixtures, and equipment of the Academy. The future minimum lease obligations and the net present value are as follows:

2008	$ 50,000
2009	50,000
2010	276,000
Total minimum lease payments	376,000
Less amount representing interest	96,000
Present value of minimum lease payments	$ 280,000

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 2007, the Academy contracted with Employers Mutual Casualty Company for general liability, property insurance, and educational errors and omissions insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Risk Management (Continued)

Coverages are as follows:

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

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

Note 8 - Defined Benefit Pension Plans

School Employees' Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853, or by visiting the SERS Ohio Website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salaries 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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS's retirement board. The Academy's required contributions for pension obligations to SERS for the years ended June 30, 2007, 2006, and 2005 were $3,484, $4,264, and $8,009, respectively, equal to the required contributions for each year, of which 71 percent has been contributed for the year ended June 30, 2007 and 100 percent has been contributed for each of the fiscal years ended June 30, 2006 and 2005.

Note 8 - Defined Benefit Pension Plans (Continued)

State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Website at www.strsoh.org.

New members have a choice of three retirement plans: a defined benefit (DB) plan, a defined contribution (DC) plan, and a combined plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance base on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The combined plan offers features of both the DC plan and the DB plan. In the combined plan, member contributions are invested by the member and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or combined plan. Existing members with less than five years of service credit as June 30, 2001 were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB plan into the DC plan or the combined plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or combined plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Note 8 - Defined Benefit Pension Plans (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were $27,073, $37,002, and $52,371, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for each of the fiscal years ended June 30, 2007, 2006, and 2005. Contributions to the DC and combined plans for the fiscal year 2007 were $30,027 made by the Academy and $21,448 made by the plan members.

Note 9 - Postemployment Benefits

The Academy provides comprehensive healthcare benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio) and to retired noncertificated employees and their dependents through the School Employees' Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for healthcare coverage. The STRS Ohio board has statutory authority over how much, if any, of the healthcare cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount totaled $2,083 for fiscal year 2007.

STRS Ohio pays healthcare benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the fund was $3.5 billion. For the year ended June 30, 2006, net healthcare costs paid by STRS Ohio were $282,743,000 and STRS had 119,184 eligible benefit recipients.

Note 9 - Postemployment Benefits (Continued)

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their healthcare premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing healthcare benefits. For the fiscal year ended June 30, 2007, employer contributions to fund healthcare benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for the fiscal year 2006. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2007, the minimum pay has been established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Academy, the amount contributed to fund healthcare benefits, including the surcharge, during the 2007 fiscal year, totaled $1,083.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the healthcare fund. The target level for the healthcare reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006 (the latest information available), were $158.751 million. At June 30, 2006, SERS had net assets available for payment of healthcare benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

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, 2007.

State Funding - The Ohio Department of Education reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2007, the results of this review are not concluded. However, in the opinion of management, any changes to enrollment data will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

Note 10 - Contingencies (Continued)

Lawsuit - A lawsuit was filed against the Academy. At this time, the Academy's legal counsel is unable to state whether an unfavorable outcome is likely. There is also no current estimate of potential losses in the event that the outcome is unfavorable.

Note 11 - Purchased Service Expense

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	$ 5,771
Legal	2,642
Insurance	15,461
Advertising	6,365
Dues and fees	45,085
Ohio Council of Community Schools	20,932
The Leona Group, LLC (Note 14)	100,393
Cleaning services	1,549
Utility	34,461
Building lease agreement	108,522
Other professional services	68,672
Other rentals and leases	9,108
Total purchased services	$ 418,961

Note 12 - Operating Leases

On April 1, 2004, the Academy entered into a lease for the period from April 1, 2004 through June 30, 2009 with Hess Family, Ltd., with an annual rent of $108,522 due in equal, monthly installments beginning August 1, 2004 for the use of a school facility. Payments made under the lease totaled $108,522 for the fiscal year. The lease was assigned to Great Lakes Environmental Academy, another The Leona Group, LLC-managed school, as of July 1, 2007 and the Academy has been released from all future obligations related to the operating lease.

Note 12 - Operating Leases (Continued)

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

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2007:

Years Ending June 30		Amount
2008		$ 54,000
2009		54,000
2010		54,000
	Total minimum lease payments	$ 162,000

Note 13 - Related Parties

Through February 2007, the Academy's governing board consisted of the same members as the governing boards for Paul Laurence Dunbar Academy, Eagle Academy, George A. Phillips Academy, Lake Erie Academy, and Wildwood Environmental Academy. Beginning in March 2007, the Academy's board consists of the same members as the governing board for Eagle Academy.

Note 14 - Management Agreement

The Academy entered into a five-year contract, effective August 20, 2001 through August 20, 2006, with annual renewal options, with The Leona Group, LLC (TLG) for educational management services for all of the management, operation, administration, and education at the Academy. The management agreement was renewed effective July 1, 2006 for a period of six years to continue through June 30, 2012. In exchange for its services, TLG receives a capitation fee of 12 percent of the per-pupil expenditures and a year-end fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The Academy incurred a management fee totaling $100,393 for the year ended June 30, 2007. At June 30, 2007, contracts payable include $8,150 for the payment of management fees and approximately $100,465 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require TLG to provide the following:

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

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

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

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

Note 14 - Management Agreement (Continued)

For the year ended June 30, 2007, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:		
Salaries	$	255,003
Fringe benefits		100,417
Professional and technical services		36,736
Other direct costs		16,038
Indirect expenses - Overhead		-
Total expenses	$	408,194

Note 15 - Subsequent Events

Subsequent to year end, the Academy borrowed $250,000 at a variable interest rate equal to the prime rate, adjusted monthly, on a state aid anticipation note. The note, plus interest, is due June 30, 2008.

Note 16 - Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Academy as a going concern. The Academy has a net deficit of $402,221. During the year ending June 30, 2008, the Academy plans to increase enrollment and revenue through aggressive marketing campaigns and better control of costs. Management believes such measures will enable the Academy to build a fund balance and pay its deferred management fees.

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

Mary Taylor, CPA
Auditor of State

TOLEDO 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
DECEMBER 27, 2007