Toledo Preparatory Academy
Lucas County

Financial Report

June 30, 2012

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Toledo Preparatory Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2011 through June 20, 2012. 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
Auditor of State

April 23, 2013

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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 in liquidation of Toledo Preparatory Academy (the "Academy") as of and for the year ended June 30, 2012 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.

As discussed in Note 14 to the financial statements, the Academy discontinued operations as of August 23, 2012. As a result, the Academy has changed its basis of accounting for the period subsequent to June 30, 2011 from the going-concern basis to the liquidation basis of accounting.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position in liquidation of the Academy as of June 30, 2012 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors
Toledo Preparatory Academy

In accordance with *Government Auditing Standards,* we have also issued our report dated March 21, 2013 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

March 21, 2013

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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 in liquidation of Toledo Preparatory Academy (the "Academy") as of and for the year ended June 30, 2012 and have issued our report thereon dated March 21, 2013. As discussed in Note 14 to the financial statements, the Academy discontinued operations as of August 23, 2012. As a result, the Academy has changed its basis of accounting for the period subsequent to June 30, 2011 from the going-concern basis to the liquidation basis of accounting. 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Toledo Preparatory Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Toledo Preparatory Academy's financial statements in liquidation 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

March 21, 2013

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, 2012. 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. Toledo Preparatory Academy ceased operations as of August 23, 2012, effectively closing the Academy after the end of the 2012 school year. Consequently, the Academy has changed its basis of accounting for the period subsequent to June 30, 2011 to the liquidation basis of accounting.

The management's discussion and analysis (MD&A) is an element of the 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 increased $226,914 due primarily to a decrease in pupil count.
- Total assets decreased $146,959, which represents a 66 percent decrease from 2011. This was due primarily to a decrease in cash.
- Total liabilities increased $79,955, which represents a 21 percent increase from 2011. This was due primarily to an increase in contracts payable.

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 deficit in liquidation, a statement of revenue, expenses, and changes in net deficit in liquidation, and a statement of cash flows.

Statement of Net Deficit in Liquidation

The statement of net deficit in liquidation answers the question, "How did we do financially during 2012?" This statement includes all assets and liabilities, both financial and capital, and short term and long term, using the liquidation 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 2012 and 2011:

TABLE 1	June 30	
	2012	2011
Assets		
Current assets	$ 70,778	$ 166,467
Capital assets - Realizable value	3,750	44,725
Other noncurrent assets	-	10,295
Total assets	74,528	221,487
Liabilities		
Current liabilities	456,414	203,627
Noncurrent liabilities	-	172,832
Total liabilities	456,414	376,459
Net Deficit		
Invested in capital assets	3,750	44,725
Unrestricted	(385,636)	(199,697)
Total net deficit	**$ (381,886)**	**$ (154,972)**

Total assets decreased $146,959. Cash decreased by $80,698 from 2011. Intergovernmental receivables decreased by $6,879. Capital assets decreased $40,975, primarily due to leasehold improvements, furniture, fixtures, equipment, and library books being adjusted to net realizable value in accordance with liquidation accounting associated with the Academy's closing.

Table 2 shows the changes in net deficit for fiscal years 2012 and 2011, as well as a listing of revenue and expenses.

TABLE 2	Year Ended June 30	
	2012	2011
Operating Revenue		
Foundation payments	$ 490,650	$ 806,219
Poverty-based assistance	26,958	36,707
Federal grants - Unrestricted	51,448	72,295
Other	3,886	15,140
Nonoperating Revenue		
Federal grants	137,693	198,671
State grants	750	5,896
Total revenue	711,385	1,134,928
Operating Expenses		
Salaries	392,846	362,026
Fringe benefits	144,068	131,002
Purchased services	288,071	483,105
Materials and supplies	25,101	20,483
Property taxes	12,672	12,861
Depreciation (unallocated)	-	20,440
Other expenses	15,612	14,323
Total operating expenses	878,370	1,044,240
Nonoperating Expenses		
Interest	14,273	15,337
Effect of adoption of the liquidation basis of accounting	45,656	-
Total nonoperating expenses	59,929	15,337
Total expenses	938,299	1,059,577
Change in Net Deficit	**$ (226,914)**	**$ 75,351**

Net deficit increased by $226,914. There was a decrease in revenue of $423,543 and a decrease in expenses of $121,278 from 2011. Of the decrease in revenue, foundation payments decreased by $315,569 and funding from federal grants decreased $81,825. Community schools receive no support from tax revenue.

The expense for salaries increased $30,820 and the expense for fringe benefits increased $13,066 from 2011. The expense for purchased services decreased $195,034 from 2011. Interest expense decreased $1,064 from 2011.

Capital Assets

At the end of fiscal year 2012, the Academy had $3,750 invested in leasehold improvements, library books, furniture, fixtures, and equipment, which represented a decrease of $40,975 from 2011. Table 3 shows capital assets reflected at net realizable value for fiscal year 2012 and net of depreciation for fiscal year 2011:

TABLE 3	2012	2011
Leasehold improvements	$ -	$ 16,498
Furniture, fixtures, and equipment	3,750	28,227
Total capital assets	**$ 3,750**	**$ 44,725**

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

Debt

At the end of this year, the Academy has $173,985 outstanding on a note payable versus $206,326 in the previous year. The note was originally long-term in nature; however, due to the closing of the Academy and the terms of the note, the entire balance is classified as current. We present more detailed information about the note payable in Note 6 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 2011-2012 school year, there were approximately 66 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 2012 totaled $517,608.

As discussed in Note 14 to the financial statements, the Academy chose to discontinue operations as of August 23, 2012.

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 Deficit in Liquidation
June 30, 2012

Assets	
Current assets:	
Cash (Note 3)	$ 33,091
Intergovernmental receivables (Note 4)	37,604
Deposits and prepaid assets	83
Total current assets	70,778
Noncurrent assets - Capital assets - Realizable value (Note 5)	3,750
Total assets	74,528
Liabilities - Current	
Accounts payable	32,381
Contracts payable (Note 13)	250,048
Note payable (Note 6)	173,985
Total liabilities	456,414
Net Deficit	
Invested in capital assets	3,750
Unrestricted	(385,636)
Total net deficit	**$ (381,886)**

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

Toledo Preparatory Academy

Statement of Revenue, Expenses, and Changes in Net Deficit in Liquidation Year Ended June 30, 2012

Operating Revenue	
Foundation payments	$ 490,650
Poverty-based assistance	26,958
Federal grants - Unrestricted	51,448
Other revenue	3,886
Total operating revenue	572,942
Operating Expenses	
Salaries	392,846
Fringe benefits	144,068
Purchased services (Note 11)	288,071
Materials and supplies	25,101
Property taxes	12,672
Other	15,612
Total operating expenses	878,370
Operating Loss	(305,428)
Nonoperating Revenue (Expense)	
Federal grants	137,693
State grants	750
Interest	(14,273)
Effect of adoption of the liquidation basis of accounting	(45,656)
Total nonoperating revenue	78,514
Change in Net Deficit	(226,914)
Net Deficit - Beginning of year	(154,972)
Net Deficit - End of year	$ (381,886)

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

Toledo Preparatory Academy

Statement of Cash Flows
Year Ended June 30, 2012

Cash Flows from Operating Activities	
Received from foundation payments	$ 490,650
Received from poverty-based assistance	26,958
Received from other operating revenue	3,886
Received from federal grants	44,336
Payments to suppliers for goods and services	(190,703)
Payments to employees for services	(421,091)
Payments for employee benefits	(144,068)
Net cash used in operating activities	(190,032)
Cash Flows from Noncapital Financing Activities	
Federal grants received	159,879
State grants received	750
Net cash provided by noncapital financing activities	160,629
Cash Flows from Capital and Related Financing Activities	
Interest payments and fiscal charges	(14,273)
Payments on long-term debt	(32,341)
Purchase of capital assets	(4,681)
Net cash used in capital and related financing activities	(51,295)
Net Decrease in Cash	(80,698)
Cash - Beginning of year	113,789
Cash - End of year	**$ 33,091**

Statement of Cash Flows (Continued)
Year Ended June 30, 2012

Reconciliation of operating loss to net cash from operating activities:	
Operating loss	$ (305,428)
Adjustments to reconcile operating loss to net cash from operating activities:	
Write-off of deposit	10,295
Changes in assets and liabilities:	
Decrease in receivables	(7,112)
Decrease in prepaid expenses	(83)
Increase in accounts payable	(9,182)
Increase in contracts payable	121,478
Total adjustments	115,396
Net cash used in operating activities	**$ (190,032)**

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 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 Academy subsequently entered into an agreement with the Ohio Department of Education as Sponsor of the Academy effective July 1, 2012, pending sufficient enrollment of the Academy for the 2012-2013 school year. 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, 2012 totaled approximately $16,000. Due to low enrollment, the Academy discontinued operations subsequent to the school year ended June 30, 2012. This is discussed in detail in Note 14 to the financial statements. As the Academy is in a net deficit position at June 30, 2012, it is unlikely that assets will be sufficient to repay all creditors.

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 66 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 deficit in liquidation, a statement of revenue, expenses, and changes in net deficit in liquidation, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net deficit, 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 deficit in liquidation. The statement of revenue, expenses, and changes in net deficit in liquidation presents increases (i.e., revenue) and decreases (i.e., expenses) in net 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 liquidation basis of accounting, which requires all assets and liabilities to be reflected at their net realizable values.

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.

Non-exchange 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, 2012 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, 2012 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. In accordance with the liquidation basis of accounting, the net book value of capital assets has been adjusted to net realizable value.

Note 2 - Summary of Significant Accounting Policies (Continued)

Net Deficit - Net 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 be 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, 2012, the Academy's deposit balance of $35,140 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	$	15,673
Title IIA		410
Special ED Part B		8,199
RTTT		1,575
Breakfast program		266
Lunch program		1,623
Edujobs		7,112
Other		2,746
Total	$	37,604

Note 5 - Capital Assets

As discussed in Note 2, the Academy changed its basis of accounting for the year ended June 30, 2012 to the liquidation basis of accounting. Under liquidation accounting, all capital assets are presented at their estimated net realizable value to the extent known. During the period subsequent to June 30, 2012, all remaining assets of the Academy that were not donated to other community schools were sold through auction. Net proceeds from the sale of assets of $3,750 were used to determine the estimated net realizable value. A nonoperating expense of $45,656 is reflected in the statement of revenue, expenses, and changes in net deficit in liquidation related to this valuation.

Note 6 - Notes Payable

Notes payable can be summarized as follows:

	Balance June 30, 2011	Reductions	Balance June 30, 2012	Due Within One Year
Note payable - Hess Family, Ltd.	$ 206,326	$ (32,341)	$ 173,985	$ 173,985

During 2010, 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 - Notes Payable (Continued)

As the Academy is in the liquidation process, per the terms of the note payable, full payment of the note can be demanded by the lessors. As such, the entire balance of the note payable has been classified as current on the statement of net deficit in liquidation.

Total interest expense on the note for the fiscal year ended June 30, 2012 was $14,273.

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 2012, 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	100,000

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

Note 8 - Defined Benefit Pension Plans

School Employees' Retirement System

Plan Description - The Academy contributes to the School Employees' Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplemental information. That report can be obtained on SERS's website at www.ohsers.org under Employers/Audit Resources.

Note 8 - Defined Benefit Pension Plans (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. 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 retirement board, acting with the advice of an actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2012, the allocation to pension and death benefits is 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were $9,702, $8,071, and $11,363, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

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.

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.

Note 8 - Defined Benefit Pension Plans (Continued)

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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. 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. For the fiscal year ended June 30, 2012, 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.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were $40,619, $35,376, and $35,682, respectively; 75 percent has been contributed for fiscal year 2012, 99 percent for fiscal year 2011, and 91 percent for fiscal year 2010. Contributions to the DCP and CP for fiscal year 2012 were $32,747 made by the Academy and $31,245 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 SERS's Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS's website at www.ohsers.org under Employers/Audit Resources.

Note 9 - Postemployment Benefits (Continued)

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 105(e). For fiscal year 2012, 0.55 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 the 2012 fiscal year, the surcharge was $1,030.

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, 2012, 2011, and 2010 were $420, $977, and $409, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were $573, $519, and $676, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

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. Ohio law authorizes STRS to offer this plan. 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.

Note 9 - Postemployment Benefits (Continued)

Funding Policy - Ohio Revised Code Chapter 3307 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 2012, 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, 2012, 2011, and 2010 were $3,125, $2,721, and $2,745, respectively; 75 percent has been contributed for fiscal year 2012, 99 percent for fiscal year 2011, and 91 percent for fiscal year 2010.

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, 2012.

Note 11 - Purchased Service Expense

For the year ended June 30, 2012, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	$	28,484
Legal		4,607
Insurance		17,276
Advertising		12,034
Dues and fees		32,374
Ohio Council of Community Schools		15,572
The Leona Group, LLC (Note 13)		49,618
Cleaning services		3,188
Utility		28,751
Building lease agreement (Note 12)		36,000
Other professional services		54,594
Other rentals and leases		5,573
Total purchased services	$	288,071

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. During the year ended June 30, 2012, The Leona Group, LLC waived rent payments due to the Academy's inability to make payments and has subsequently terminated the lease with the Academy. Payments made under the lease totaled $36,000 for the fiscal year. There were no future minimum lease payments at June 30, 2012 under the lease.

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. The management agreement was terminated effective June 30, 2012, after the end of the 2012 school year. 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. During the year ended June 30, 2012, TLG waived certain management fees due to the Academy's inability to pay. The Academy incurred a management fee totaling $49,618 for the year ended June 30, 2012. At June 30, 2012, contracts payable include $69,150 for the payment of management fees and $180,898 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

Note 13 - Management Agreement (Continued)

For the year ended June 30, 2012, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:		
Salaries	$	392,846
Fringe benefits		144,068
Professional and technical services		204,370
Other direct costs		62,624
Total expenses	$	803,908

Note 14 - Ceased Operations/Subsequent Events

The Academy's board of directors passed a resolution to cease operations on August 23, 2012, effectively closing the Academy after the end of the 2012 school year, and the Academy is currently in the process of dissolving the remaining assets and liabilities. The management agreement was terminated effective June 30, 2012, after the end of the 2012 school year. Consequently, the Academy has changed its basis of accounting for the period subsequent to June 30, 2011 to the liquidation basis of accounting. All assets and liabilities have been adjusted to reflect their estimated fair market value as of June 30, 2012.

The following statement of net deficit in liquidation as of February 28, 2013 and statement of revenue, expenses, and changes in net deficit in liquidation for the period from July 1, 2012 through February 28, 2013 summarize the transactions and effect of those transactions on the cash and liabilities of the Academy subsequent to the closing of the Academy.

Statement of net deficit in liquidation:

		February 28, 2013
Assets - Cash	$	47,065
Liabilities - Current		
Accounts payable		111,974
Note payable		173,985
Total liabilities		285,959
Net Deficit - Unrestricted	$	(238,894)

Note 14 - Ceased Operations/Subsequent Events (Continued)

Statement of revenue, expenses, and changes in net deficit in liquidation:

	Period from July 1, 2012 through February 28, 2013
Operating Revenue - Other revenue	$ 11,128
Operating Expenses	
Salaries	39,592
Fringe benefits	14,875
Purchased services	43,747
Materials and supplies	1,423
Other	1,474
Total operating expenses	101,111
Operating Loss	(89,983)
Nonoperating Revenue (Expenses)	
Forgiveness of debt	235,279
Interest	(2,304)
Total nonoperating revenue	232,975
Change in Net Deficit	142,992
Net Deficit - Beginning of period	(381,886)
Net Deficit - End of period	$ (238,894)

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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
MAY 9, 2013

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