

Trotwood Preparatory and Fitness Academy

Montgomery County

Regular Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, INC.

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Mary Taylor, CPA
Auditor of State

Board of Directors
Trotwood Preparatory and Fitness Academy
3100 Shiloh Springs Road
Trotwood, Ohio 45426

We have reviewed the *Independent Auditor's Report* of the Trotwood Preparatory and Fitness Academy, Montgomery County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 Trotwood Preparatory and Fitness Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 11, 2007

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**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY, OHIO**

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Ohio Society of Certified Public Accountants

Independent Auditor's Report

Trotwood Preparatory and Fitness Academy
Montgomery County
3100 Shiloh Springs Road
Trotwood, Ohio 45426

We have audited the financial statements of the business-type activities of the Trotwood Preparatory and Fitness Academy, Montgomery County, Ohio, (the Academy) as of and for the year ended June 30, 2005, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

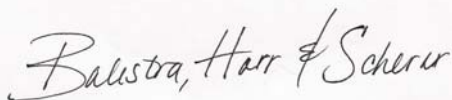
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Academy, as of June 30, 2005, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine 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*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 11 to the basic financial statements, the Academy implemented Governmental Accounting Standards Board Statement Number 40, *Deposit and Investment Risk Disclosures (An amendment of GASB No.3)*.



Balestra, Harr & Scherer, CPAs, Inc.
May 31, 2007

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TROTWOOD PREPARATORY AND FITNESS ACADEMY

Montgomery County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

This discussion and analysis of the Trotwood Preparatory and Fitness Academy's (The Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. 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 Government issued 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 \$11,141. This decrease was due to the Academy's Board approval for the expenditure of the 2% board reserve.
- Total assets decreased \$11,785. This decrease was also due to the Academy's Board approval for the expenditure of the 2% board reserve.
- Liabilities decreased \$644 to \$0 in 2005. This decrease was due to the Academy accurately resolving the fees owed to the management company at June 30, 2005.

Using this Financial Report

This report consists of three parts, the Management Discussion and Analysis, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" 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.

TROTWOOD PREPARATORY AND FITNESS ACADEMY

Montgomery County
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 (Continued)

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 and fiscal year 2004.
 (Table 1)

Net Assets

Assets	<u>FY 2005</u>	<u>FY 2004</u>
Current Assets:	\$4,768	\$16,533
 Total Assets	<u>\$4,768</u>	<u>\$16,553</u>
 Liabilities		
Current Liabilities:	\$ -	\$ 644
 Total Liabilities	<u>\$ -</u>	<u>\$ 644</u>
 Net Assets		
Unrestricted	<u>\$4,760</u>	<u>\$ 15,909</u>
 Total Net Assets	<u>\$4,760</u>	<u>\$15,909</u>

Total assets decreased \$11,785. This decrease was due to the expenditure of the 2% board reserve as approved by the Trotwood Preparatory and Fitness Board. Equity in pooled cash and cash equivalents decreased by \$3,076 and accounts receivable decreased by \$8,052 making up the majority of the \$11,785 decrease in total assets.

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2005, as well as a listing of revenues and expenses.

(Table 2)

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Foundation Payments	\$ 975,920	\$ 694,065
Disadvantaged Pupil Impact Aid	185,209	75,090
Special Education Funding	139,996	38,040
Parity Aid	79,867	46,862
Sales	14,696	12,327
Miscellaneous	-	8,065
Non-Operating Revenues		
Federal Grants	399,737	107,451
State Grants	6,100	-
Total Revenues	<u>1,801,525</u>	<u>981,900</u>
 Operating Expenses		
Purchased Services - Management Fees	1,734,408	970,429
Other Operating Expenses	78,258	2,325
Total Expenses	<u>1,812,666</u>	<u>972,754</u>
 Increase (Decrease) in Net Assets	(11,141)	9,146
Beginning Net Assets	<u>15,909</u>	<u>6,763</u>
Ending Net Assets	<u>\$ 4,768</u>	<u>\$ 15,909</u>

TROTWOOD PREPARATORY AND FITNESS ACADEMY

Montgomery County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Continued)

Change in Net Assets

The net assets decreased \$11,141. There was an increase in revenues of \$819,625, and an increase in expenses of \$839,912. This was primarily due to the increase in federal grants of \$292,286. Other significant increases include Foundation Payments by \$281,855, Disadvantaged Pupil Impact Aid by \$110,119, Special Education Funding by \$101,956, and Parity Aid by \$33,005. Community Schools receive no support from tax revenues.

The increase in management fees of \$764,637 was due to the increase in revenues, the nature of the full performance contract, and the Academy's making SERS and STRS payments on behalf of the management company. These additional funds were used to offset expenses related to the increase in enrollment.

Capital Assets

The Trotwood Preparatory and Fitness Academy has no capital assets due to the nature of the full performance contract with Edvantages.

Current Financial Issues

The Trotwood Preparatory and Fitness Academy was formed in 2002 through a charter with the Ohio Department of Education. During the 2002-2003 school year there were approximately 95 students enrolled. In FY '05 this number increased to approximately 150. The Academy receives its finances mostly from state aid. Per pupil base aid for fiscal year 2005 was \$5,169.

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 money it receives. If you have any questions about this report or need additional information contact Toby Pinkerton, Treasurer at Trotwood Preparatory and Fitness Academy, 3100 Shiloh Springs Rd., Trotwood, Ohio 45426 or email at tpinkerton@edvantages.com.

**Trotwood Preparatory and Fitness Academy
Montgomery County**

**Statement of Net Assets
As of June 30, 2005**

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$ 4,768</u>
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Total Current Assets	<u><u>4,768</u></u>
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Net Assets

Unrestricted	<u>4,768</u>
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Total Net Assets	<u><u>\$ 4,768</u></u>
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The notes to the financial statements are an integral part of this statement.

**Trotwood Preparatory and Fitness Academy
Montgomery County**

**Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005**

Operating Revenues	
Foundation Payments	\$ 975,920
Disadvantaged Pupil Impact Aid	185,209
Special Education Funding	139,996
Parity Aid	79,867
Sales	<u>14,696</u>
 Total Operating Revenues	 <u>1,395,688</u>
 Operating Expenses	
Purchased Services - Management Fees	1,734,408
Other Operating Expenses	<u>78,258</u>
 Total Operating Expenses	 <u>1,812,666</u>
 Operating Loss	 <u>(416,978)</u>
 Non-Operating Revenues	
Federal Grants	399,737
State Grants	<u>6,100</u>
 Total Non-Operating Revenues	 <u>405,837</u>
 Change in Net Assets	 <u>(11,141)</u>
 Net Assets at Beginning of Year, Restated	 <u>15,909</u>
 Net Assets at End of Year	 <u><u>\$ 4,768</u></u>

The notes to the financial statements are an integral part of this statement.

**Trotwood Preparatory and Fitness Academy
Montgomery County**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 1,389,701
Cash Payments to Suppliers for Goods and Services	(1,813,310)
Cash Received from Sales	<u>14,696</u>
Net Cash Used for Operating Activities	<u>(408,913)</u>

Cash Flows From Non-Capital Financing Activities

Cash Received from State Grants	6,100
Cash Received from Federal Grants	<u>399,737</u>
Net Cash Provided by Non-Capital Financing Activities	<u>405,837</u>

Net Increase in Cash (3,076)

Cash at Beginning of Year 7,844

Cash at End of Year \$ 4,768

Reconciliation of operating loss to net cash used by operating activities:

Operating Loss \$ (416,978)

Adjustments to reconcile operating loss to net
cash used by operating activities:

Decrease in accounts receivable	8,052
Decrease in funding receivable	657
Decrease in service provider payable	<u>(644)</u>
Total Adjustments	<u>8,065</u>

Net cash used for operating activities \$ (408,913)

The notes to the financial statements are an integral part of this statement.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2005

1. DESCRIPTION OF THE ENTITY

The Trotwood Preparatory and Fitness Academy (the Academy) has applied as a tax exempt status nonprofit corporation under Section 501c(3) of the Internal Revenue Code. It was established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in kindergarten through grade five. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy contracts with Edvantages corporation for most of its functions. See Note 4.

The Academy was approved for operation under a contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing in July 2002. The Sponsor is responsible for evaluation 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. Effective May 7, 2004 the Academy is under contract with the Ohio Council of Community Schools for a period of 5 years.

The Academy operates under the direction of a seven-member Board of Directors (The Board). The Board is responsible for carrying out the provisions of the contract with the sponsor which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board of Directors leases the Academy's one instructional/support facility from Edvantages as noted in the management agreement. The facility is staffed with teaching personnel employed by Edvantages. The Board also operates the following schools:

Middletown Preparatory and Fitness Academy	Middletown, Ohio
Northland Preparatory and Fitness Academy	Columbus, Ohio
Springfield Preparatory and Fitness Academy	Springfield, Ohio
Whitehall Preparatory and Fitness Academy	Columbus, Ohio

Also the Academy is associated with the Metropolitan Dayton Education Computer Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 10)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 to its proprietary activities provided they do no conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

B. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its 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. The Statement of Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The Statement of Cash Flows provides information about how the Academy finances and meets cash flow needs of its enterprise activities.

C. 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.

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.

D. Budgetary Process

Unlike traditional 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 Academy's contract with its sponsor.

The contract between the Academy and its sponsor requires that monthly budget reports be prepared comparing actual for the month to budgeted amount for the month. It also requires that a variance report accompany the monthly reports identifying areas that may need to be adjusted to maintain a balanced budget. Monthly reports and timely presentations are to be furnished to the Board by the treasurer with recommendations for Board action to adjust the spending plan as appropriate action is warranted.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash Deposits

All cash received by the Academy is maintained in a demand deposit account.

F. Net Assets

Net assets represent the difference between the assets and liabilities. The Academy's net assets are unrestricted at June 30, 2005.

G. Concentration of Business and Current Risk

As of June 30, 2005, funds received from the federal and state of Ohio governments represented nearly 100% of the revenues reported by the Academy. Accordingly, the risk exists that the ability to receive funds from these governments could affect the financial status of the Academy.

Deposits

The Academy maintains its cash balance in a demand deposit account in two financial institutions located in Trotwood, Ohio. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000. At June 30, 2005 the Academy's cash balance was \$67,710, so 100 percent was covered by FDIC. The Academy had no investments at June 30, 2005, or during the fiscal year.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

K. 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 from the state and sales for food services and school fees. 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 non-operating.

3. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. As part of its management agreement with Edvantages, Edvantages has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement. There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2005

4. AGREEMENT WITH EDVANTAGES, INC.

On March 1, 2002, the Academy contracted with Edvantages, Inc., to provide educational programs that offer educational excellence and innovation based upon the Academy's unique school design, comprehensive educational program, and sound school and business principles and management methodologies. This contract remains in effect as long as the Academy continues to renew the contract and has entered into or is continuing to operate under any chartering school contract. Under the contract Edvantages is responsible for providing educational and management services and products, human resources administration, including school personnel and business management, curricula, programs, contract administration and technology. Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

The Academy pays Edvantages all state and federal per pupil allocations, transportation, technology or other operational funds, including private donations, endowments, or grants applied for on behalf of the Academy, except for two percent of the base state per pupil allocation. This two percent is to be retained by the Academy as a Board Reserve to be used by June 30 of each year for the Academy's benefit. The amount paid to Edvantages by the Academy is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets as Purchased Services – Management Fees operating expense.

2. The Academy's Financial Responsibility

The Academy uses the Board Reserve to pay Board members' compensation; expenses for fund raising and grant writing accomplished by the Academy; and other expenses for the benefit of the Academy at the Board's discretion.

3. Edvantages Financial Responsibilities

Edvantages is responsible for the payment of all wages, compensation and expenses of Edvantages or the Academy including the Superintendent, Treasurer, assistants, administrators, clerical staff, and teachers. Edvantages is also responsible for janitorial services; worker's compensation; other insurance; necessary comprehensive or premises liability insurance; and attorney fees. Edvantages pays their own office expenses and supplies; leases for equipment and the Academy offices or facilities; and travel, lodging and other expenses incurred pursuant to services rendered by Edvantages.

4. Financial Reporting by Edvantages

Edvantages shall provide the Academy's Board with a proposed and projected annual budget prior to opening each fiscal year; statements of all revenues received with respect to the Academy, and statements of all direct expenditures for services rendered to or on behalf of the Academy. Edvantages also provides consultation on annual audits in compliance with state law and regulations showing the manner in which funds are spent for the Academy. Edvantages reports on Academy operations and finances on a quarterly basis and other information on a reasonably requested basis to enable the Board to monitor the performance of the Academy; and a reasonable opportunity to inspect, examine, audit and otherwise review the books, records, accounts, ledgers and other financial documents of Edvantages to the extent that they relate to or otherwise pertain to activities of the Academy.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2005

4. AGREEMENT WITH EDVANTAGES, INC. (Continued)

A. Financial Provisions (Continued)

5. Financial Reporting by the Academy

The Academy shall provide Edvantages with statements of all funds received by the Academy from grants applied for by the Academy, donations or endowments and statements of all expenditures and investments made with such funds, as well as with the Board Reserve funds.

B. Personnel

Edvantages selects and hires all teaching staff, administrative or other staff. They also evaluate, assign, discipline and transfer personnel. Edvantages also selects the Academy's Superintendent and establishes employment terms. During the first two years of operation, the Superintendent shall be a representative of Edvantages. Edvantages determines the number of teachers needed for the operation of the Academy and selects and hires all teachers. The personnel who perform services at the Academy are employees or subcontractors or service providers of Edvantages and are paid by Edvantages.

C. Agreement Termination

1. Termination by the Academy

The Academy may terminate the Contract after prior written notice to Edvantages if the Academy ceases to be approved by the Ohio Department of Education as an Ohio Community School and the Academy or Edvantages cannot secure another sponsor; upon sixty days prior written notice in the event that Edvantages be guilty of a felony or fraud, gross negligence, or other act of willful or gross misconduct in the rendering of services under the Agreement, or in the event that Edvantages fails to remedy a material breach of its duties or obligation within six months after written notice of the breach is provided to Edvantages by the Academy, if Edvantages has failed to cure such breach during the first three months of the notice period.

2. Termination by Edvantages

Edvantages may terminate the Contract in the event the Academy materially breaches the Agreement and the Academy fails to remedy such a breach within ninety days of its receipt of written notice of such breach from Edvantages.

5. DEFINED BENEFIT PENSION PLANS

The Academy has contracted with Edvantages to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The State retirement systems consider the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the State systems noted below.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2005

5. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System

Edvantages, on behalf of 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 state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% 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' Retirement Board. The Academy's contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$43,270, \$30,476 and \$ 21,058, respectively, equal to the required contributions for each year.

B. State Teachers Retirement System

Edvantages, on behalf of the Academy contributes to 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 issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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 based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determines annuity factor. The DC Plan allows members to place all their membership contributions and employer contributions equal to 10.5% 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit 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 of 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 that 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.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2005

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

For the fiscal year ending June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 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 fiscal years ended June 30, 2005, 2004 and 2003 were \$97,370, \$61,236, and \$47,740, respectively, 100 percent contributed for each fiscal year.

6. POST EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified 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 on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care 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, 2005, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy this amount equaled \$1,799 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll, a decrease of 1.48% from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal 2004, the minimum pay has been established as \$27,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge during the 2004 fiscal year equals \$2,732. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
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6. POST EMPLOYMENT BENEFITS (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$300.8 million.

The number of benefit recipients currently receiving health care benefits is approximately 62,000.

7. PURCHASED SERVICES

For the period ended June 30, 2005, purchased service expenses represent payments for management services rendered by Edvantages (see note 5) and STRS and SERS payments made by the Academy on behalf of Edvantages.

Purchased Services Agreement	\$ 1,734,408
SERS and STRS Payments	\$ <u>78,258</u>
Total Purchased Services	\$ <u>1,812,666</u>

8. CONTINGENCIES

A. 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 are 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, 2005.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's community (i.e., Charter) Schools program violates the State Constitution and State Laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the Court of appeals, the issues have been briefed, and the case was set for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state student enrollment data to the State, upon which state Foundation funding is calculated. This review did not result in state funding being adjusted. The review for the fiscal year 2005 was completed August 2005 with no corrections made.

Trotwood Preparatory and Fitness Academy
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Notes to the Basic Financial Statements
June 30, 2005

9. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

10. METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION

The Academy is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundary of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Edvantages paid MDECA for services provided during the fiscal year for the Academy. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

11. MANAGEMENT COMPANY EXPENSES

As per the agreement with Edvantages (see note 5), 98% of the Academy's revenue is paid to Edvantages as a management fee. The related 'purchased services' expense totaled \$1,812,666 for the year ended June 30, 2005.

Edvantages did not incur indirect expenses on behalf of the Academy.

Edvantages incurred the following actual direct expenses on behalf of the Academy:

Salaries and Wages	\$	843,663
Benefits		186,306
Professional and Technical Services		87,975
Property Services		221,353
Travel		8,945
Communications		52,357
Books, Periodicals, & Films		55,634
Other Supplies		67,458
Depreciation		24,968
Other Direct Costs		<u>123,457</u>
Total Expenses	\$	<u>1,672,116</u>

Trotwood Preparatory and Fitness Academy
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Notes to the Basic Financial Statements
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12. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the Academy has implemented GASB Statement No.40, "*Deposit and Investment Risk Disclosures.*" GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the Academy's financial statements for fiscal year 2005.

13. SUBSEQUENT EVENTS

The Ohio Supreme Court accepted the approval from the Court of Appeals (see note 9 B) for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Academy is still not presently determinable.

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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*

Trotwood Preparatory and Fitness Academy
Montgomery County, Ohio
3100 Shiloh Springs Road
Trotwood, Ohio 45426

We have audited the financial statements of the Trotwood Preparatory and Fitness Academy, Montgomery County (the Academy), as of and for the year ended June 30, 2005 and have issued our report thereon dated May 31, 2007. 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 the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal controls would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the Academy's management date May 31, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 reported under *Government Auditing Standards*. In a separate letter to the Academy's management date May 31, 2007, we reported other matters related to noncompliance we deemed immaterial.

Trotwood Preparatory and Fitness Academy
Montgomery County
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit Performed in Accordance
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This report is intended solely for the information and use of the audit committee, management and the member of the Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

May 31, 2007



Mary Taylor, CPA
Auditor of State

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY 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
JUNE 21, 2007**