

Trotwood Preparatory and Fitness Academy

Montgomery County

Regular Audit

July 1, 2007 through June 30, 2008

Fiscal Year Audited Under GAGAS: 2008



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Board of Education
Trotwood Preparatory and Fitness Academy
3100 Shiloh Springs
Trotwood, Ohio 45246

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, 2007 through June 30, 2008. 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 9, 2009

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Trotwood Preparatory and Fitness Academy

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Member Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board

Trotwood Preparatory and Fitness Academy
3100 Shiloh Springs
Trotwood, Ohio 45246

We have audited the financial statements of the business-type activities of the Trotwood Preparatory and Fitness Academy (the Academy), as of and for the year ended June 30, 2008, 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2008, and the respective changes in financial position and cash flows there of, 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 March 31, 2009, 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 and grant 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.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.



Balestra, Harr & Scherer, CPAs, Inc.

March 31, 2009

TROTWOOD PREPARATORY AND FITNESS ACADEMY

Montgomery County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

The 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, 2008. 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 \$1,878 in 2008.
- Total assets increased \$2,585 in 2008.
- Liabilities increased \$4,463 in 2008.

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 2008?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2008 and fiscal year 2007.

TROTWOOD PREPARATORY AND FITNESS ACADEMY

Montgomery County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

(Continued)

(Table 1)

Net Assets

Assets	<u>FY 2008</u>	<u>FY 2007</u>
Current Assets:	<u>\$10,682</u>	<u>\$8,097</u>
Total Assets	<u>\$10,682</u>	<u>\$8,097</u>
Liabilities		
Current Liabilities:	<u>\$9,282</u>	<u>\$ 4,819</u>
Total Liabilities	<u>\$9,282</u>	<u>\$ 4,819</u>
Net Assets		
Unrestricted	<u>\$1,400</u>	<u>\$ 3,278</u>
Total Net Assets	<u>\$1,400</u>	<u>\$3,278</u>

Total assets decreased \$1,878.

Table 2 shows the changes in net assets for fiscal year 2007 and fiscal year 2008, as well as a listing of revenues and expenses.

(Table 2)

Change in Net Assets

Operating Revenues	2008	2007
Foundation Payments	\$ 1,647,962	\$ 1,618,557
Disadvantaged Pupil Impact Aid	\$ 251,800	\$ 331,104
Special Education Funding	\$ 471,818	\$ 322,843
Parity Aid	\$ 183,670	\$ 164,896
Sales	\$ 9,623	\$ 16,870
Miscellaneous	\$ 3,600	\$ 7,493
Non-Operating Revenues		
Federal Grants	\$ 456,164	\$ 322,064
State Grants	\$ 16,861	\$ 4,932
Total Revenues	\$ 3,041,376	\$ 2,788,759
Operating Expenses		
Purchased Services - Management Fees	\$ 2,845,674	\$ 2,586,103
Other Operating Expenses	\$ 197,702	\$ 201,293
Total Expenses	\$ 3,043,376	\$ 2,787,396
Increase (Decrease) in Net Assets	\$ (1,878)	\$ 1,363
Ending Net Assets	<u>\$ 1,400</u>	<u>\$ 3,278</u>

TROTWOOD PREPARATORY AND FITNESS ACADEMY

Montgomery County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

(Continued)

The change in net assets decreased \$1,878. There was an increase in revenues of \$252,739, and an increase in expenses of \$255,980. This was primarily due to the increase in Special Education Funding of \$148,975. Other significant increases include Federal Grants by \$134,100 and Foundation Funding by \$29,405. Community Schools receive no support from tax revenues.

The increase in management fees of \$259,571 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. The following year, this increased to approximately 175. In FY '05 this number increased to approximately 250 and in FY'06 to 278. In FY07 FTE was approximately 290 and it increased to 300 in FY08. The Academy receives its finances mostly from state aid. Per pupil base aid for fiscal year 2008 was \$5,565.

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
Statement of Net Assets
June 30, 2008

Assets

Current Assets:

Equity in Cash and Cash Equivalents	\$ 1,400
Intergovernmental Receivable	<u>\$ 9,282</u>

Total Current Assets \$ 10,682

Current Liabilities:

Accounts Payable - Service Provider	<u>\$ 9,282</u>
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Total Current Liabilities \$ 9,282

Net Assets

Unrestricted	<u>\$ 1,400</u>
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Total Net Assets \$ 1,400

See accompanying notes to the basic financial statements.

Trotwood Preparatory and Fitness Academy
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year ended June 30, 2008

Operating Revenues	
Foundation Payments	\$ 1,647,962
Poverty Based Assistance	\$ 251,800
Special Education Funding	\$ 471,818
Parity Aid	\$ 183,670
Sales	\$ 9,623
Miscellaneous	<u>\$ 3,600</u>
Total Operating Revenues	<u>\$ 2,568,473</u>
Operating Expenses	
Purchased Services - Management Fees	\$ 2,845,674
Other Operating Expenses	<u>\$ 197,702</u>
Total Operating Expenses	<u>\$ 3,043,376</u>
Operating Gain	\$ (474,903)
Non-Operating Revenues	
Federal Grants	\$ 456,164
State Grants	\$ 16,861
Total Non-Operating Revenues	<u>\$ 473,025</u>
Change in Net Assets	\$ (1,878)
Net Assets at Beginning of Year, Restated	<u>\$ 3,278</u>
Net Assets at End of Year	<u><u>\$ 1,400</u></u>

See accompanying notes to the basic financial statements.

Trotwood Preparatory and Fitness Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities

Cash Received from Sales	\$ 9,623
Cash Received from State of Ohio	\$ 2,550,787
Cash Received from Miscellaneous	\$ 3,600
Cash Payments to Suppliers for Goods and Services	<u>\$ (3,038,913)</u>
Net Cash Used for Operating Activities	<u>\$ (474,903)</u>

Cash Flows From Non-Capital Financing Activities

Cash Received from State Grants	\$ 16,861
Cash Received from Federal Grants	<u>\$ 456,164</u>
Net Cash From Non-Capital Financing Activities	<u>\$ 473,025</u>

Net Increase in Cash \$ (1,878)

Cash at Beginning of Year \$ 3,278

Cash at End of Year \$ 1,400

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating Loss	\$ (474,903)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Increase in Intergovernmental Receivable	\$ 4,463
Increase in Accounts Payable - Service Provider	<u>\$ (4,463)</u>
Total Adjustments	<u>\$ -</u>
Net Cash Used for Operating Activities	<u><u>\$ (474,903)</u></u>

See accompanying notes to the basic financial statements.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

1. DESCRIPTION OF THE ENTITY

The Trotwood Preparatory and Fitness Academy (the Academy) has been approved 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 Academy 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 5.

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 1, 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:

Cincinnati Preparatory and Fitness Academy	Mt. Healthy, Ohio
Columbus Preparatory and Fitness Academy	Columbus, Ohio
Middletown Preparatory and Fitness Academy	Middletown, Ohio
Mount Healthy Preparatory and Fitness Academy	Mt. Healthy, 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)

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

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.

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.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2008.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Concentration of Business and Current Risk

As of June 30, 2008, funds received from the federal and state of Ohio governments represented 100% of the revenues and accounts receivable 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, 2008 the Academy's cash balance was \$1,400, so 100 percent was covered by FDIC. The Academy had no investments at June 30, 2008, or during the fiscal year.

H. 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.

I. 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.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2008, the District has implemented GASB Statement No. 45, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

4. 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.

5. 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:

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

5. AGREEMENT WITH EDVANTAGES, INC. (Continued)

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 and 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.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

5. AGREEMENT WITH EDVANTAGES, INC. (Continued)

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.

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.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

5. AGREEMENT WITH EDVANTAGES, INC. (Continued)

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.

6. 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.

School Employees Retirement System

- A. 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 percent of their annual covered salary and the Academy is required to contribute 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 Retirement Board acting with the advice of the actuary, allocated the current employer contribution rate among the four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending 2008, it was determined the employer contribution rate to pension and death benefits to be 9.16%. The remaining 4.84% of the 14% employer contribution rate was allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$73,296, \$88,626, and \$37,928, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

6. DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System

- A. 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.

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

6. DEFINED BENEFIT PENSION PLANS (Continued)

The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

6. DEFINED BENEFIT PENSION PLANS (Continued)

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the 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% for members and 14% for employers.

For the fiscal years ended June 30, 2008, 2007, and 2006, plan members were required to contribute 10 percent of their annual covered salaries. For these fiscal years, the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$123,776, \$112,488, and \$77,006, respectively; 100% has been contributed for the fiscal years 2008, 2007 and 2006.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's Comprehensive Annual Financial Report can be requested 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.

Trotwood Preparatory and Fitness Academy
Montgomery County
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June 30, 2008

7. POST EMPLOYMENT BENEFITS

State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled \$8,841, \$8,035, and \$6,055 for fiscal years 2008, 2007, and 2006, respectively.

School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2008 was \$96.40; SERS' reimbursement to retirees was \$45.50.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

7. POST EMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2008, 2007, and 2006 the actuarially required allocations were 0.66 percent, 0.68 percent, and 0.78 percent. The School District's contributions for the fiscal years ended June 30, 2008, 2007 and 2006 were \$14,779, \$13,707 and \$14,959, respectively, which equaled the required contributions for those years.

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, 2007, and 2006, the health care allocations were 4.18 percent, 3.32 percent, and 3.42 percent, respectively. The actuarially required contribution (ARC), as of the June 30, 2008 annual valuation, was 13.41 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For the School District, the amounts contributed to fund health care benefits, including the surcharge, during the 2008, 2007, and 2006 fiscal years equaled \$8,496, \$21,650, and \$2,732, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

7. POST EMPLOYMENT BENEFITS (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS website at www.ohsers.org under *Forms and Publications*.

8. PURCHASED SERVICES

For the period ended June 30, 2008, 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	\$ 2,845,674
SERS and STRS Payments	<u>\$ 197,702</u>
Total Purchased Services	<u>\$ 3,043,376</u>

9. 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, 2008.

B. 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 2008 was completed August 2008 with no corrections made.

Trotwood Preparatory and Fitness Academy
Montgomery County
Notes to the Basic Financial Statements
June 30, 2008

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 Schools 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 Schools.

The governing board of MDECA consists of seven Superintendents elected by majority vote of all member Schools 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 school's revenue is paid to Edvantages as a management fee. The related 'purchased services' expense totaled \$3,043,376 for the year ended June 30, 2008 including STRS and SERS made by the Academy on behalf of Edvantages..

Edvantages incurred the following actual direct and indirect expenses on behalf of the school:

Salaries and Benefits	\$ 2,205,275
Contract Services	297,154
Instructional Supplies	95,553
Other Materials	87,587
Facility Costs	143,400
Other	<u>79,583</u>
Total Expenses	<u>\$ 2,908,552</u>

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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***

Members of the Board

Trotwood Preparatory and Fitness Academy

3100 Shiloh Springs

Trotwood, Ohio 45246

We have audited the accompanying financial statements of the business-type activities of the Trotwood Preparatory and Fitness Academy (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009 in which we indicated the Academy implemented GASB Statements Number 45 and 50. 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 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 the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Members of the Board

Trotwood Preparatory and Fitness Academy

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*

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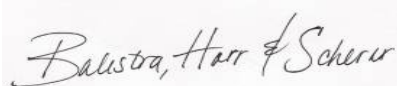
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's basic 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*.

We did note a certain noncompliance or other matter that we reported to the Academy's management in a separate letter dated March 31, 2009.

This report is intended solely for the information and use of the Academy's management, and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
March 31, 2009



Mary Taylor, CPA
Auditor of State

TROTWOOD PREPARATORY & 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 23, 2009**