Peterson Entrepreneurial Training Enterprise

Montgomery County

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

CAUDILL & ASSOCIATES, CPA's

725 5th Street

Portsmouth, Ohio 45662

Mary Taylor, CPA
Auditor of State

Governing Board
Peterson Entrepreneurial Training Enterprise
One Elizabeth Place
Dayton, Ohio 45408

We have reviewed the *Independent Auditor's Report* of the Peterson Entrepreneurial Training Enterprise, Montgomery County, prepared by Caudill & Associates, CPA's, for the audit period July 1, 2005 through June 30, 2006. 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 Peterson Entrepreneurial Training Enterprise is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 8, 2008

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CAUDILL & ASSOCIATES, CPA's

725 5th Street
Portsmouth, Ohio 45662

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Peterson Entrepreneurial Training Enterprise
Montgomery County
One Elizabeth Place
Dayton, Ohio 45408

To the Governing Board:

We have audited the accompanying financial statements of the business-type activities of the Peterson Entrepreneurial Training Enterprise (the School), as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the School, as of June 30, 2006, and the respective changes in financial position and cash flows 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 December 31, 2007, on our consideration of the School'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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 to the basic financial statements, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
December 31, 2007

The management discussion and analysis of the Peterson Entrepreneurial Training Enterprise Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

Financial Highlights

- The School had net assets of $144,961 at June 30, 2006.
- Total assets at fiscal year-end were $167,328 and total liabilities were $22,367.
- The School had operating revenues for fiscal year 2006 of $721,109 and operating expenses of $785,557.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how the School did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the School's net assets for fiscal years 2005 and 2006.

(Table 1)
Net Assets

	2005	2006	Change
Assets			
Current Assets	$ 146,738	$ 91,843	$ (54,895)
Capital Assets, Net	0	75,485	75,485
Total Assets	146,738	167,328	20,590
Liabilities			
Current Liabilities	40,439	22,367	(18,072)
Non-Current Liabilities	1,064	-	(1,064)
Total Liabilities	41,503	22,367	(19,136)
Net Assets			
Invested in Capital Assets	-	75,485	75,485
Restricted	54,870	23,612	(31,258)
Unrestricted	50,365	45,864	(4,501)
Total Net Assets	$105,235	$ 144,961	$ 39,726

Total assets increased $20,590, as capital assets increased by $75,485 due to the acquisition of computer equipment during fiscal year 2006. An increase in enrollment resulted in an increase in revenue, which allowed the School to purchase additional capital assets. Total liabilities decreased $19,136 mainly due to the timing of when invoices were due, which resulted in a decrease in accounts payable and a decrease in accrued wages and benefits from fiscal year 2005. Total net assets increased $39,726.

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Table 2 shows the changes in net assets for fiscal years 2005 and 2006.

(Table 2)
Change in Net Assets

	2005	2006	Change
Operating Revenues			
State Foundation	$ 608,557	$ 708,897	$ 100,340
Poverty Based Assistance	7,758	12,212	4,454
Miscellaneous	185	-	(185)
Total Operating Revenues	616,500	721,109	104,609
Non-Operating Revenues:			
Federal and State Grants	106,025	103,808	(2,217)
Interest	142	366	224
Total Non-Operating Revenues	106,167	104,174	(1,993)
Total Revenues	722,667	825,283	102,616
Operating Expenses			
Salaries	137,803	262,495	124,692
Fringe Benefits	35,899	44,611	8,712
Purchased Services	326,291	353,418	27,127
Rent	-	41,762	41,762
Materials and Supplies	117,439	83,271	(34,168)
Total Expenses	617,432	785,557	168,125
Change in Net Assets	105,235	39,726	(65,509)
Net Assets at Beginning of Year	-	105,235	105,235
Net Assets at End of Year	$ 105,235	$ 144,961	$ 39,726

There was an increase in revenues of $102,616 and an increase in expenses of $168,125 from fiscal year 2005. Of the increase in revenues, State foundation money increased by $100,340. This increase was due to an increase in enrollment in fiscal year 2006.

Salaries increased by $124,692 from fiscal year 2005. This was due to the increased number of personnel and staff raises. This large increase was offset, somewhat, by the decrease in materials and supplies of $34,168 primarily due to the fact that fiscal year 2005 was the first year of existence for the School which demanded a large amount of start up costs.

Capital Assets

At the end of fiscal year 2006 the School had $75,485, invested in furniture and equipment and vehicles. Table 3 shows fiscal year 2006.

(Table 3)
Capital Assets at June 30,
(Net of Depreciation)

	2006
Furniture and Equipment	$ 71,981
Vehicles	3,504
Totals	$ 75,485

Debt Administration

The School does not have any outstanding debt at June 30, 2006.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Carl Shye, Treasurer at Peterson Entrepreneurial Training Enterprise Community School, One Elizabeth Place, Dayton, Ohio 45408.

PETERSON ENTREPRENEURIAL TRAINING ENTERPRISE
STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets		
Current Assets:		
Cash and Cash Equivalents	$	71,415
Intergovernmental Receivable		20,428
Total Current Assets		91,843
Non-Current Assets:		
Capital Assets:		
Depreciable Capital Assets, Net		75,485
Total Assets		167,328
Liabilities		
Current Liabilities:		
Accounts Payable		8,867
Accrued Wages and Benefits Payable		11,693
Intergovernmental Payable		1,807
Total Liabilities		22,367
Net Assets		
Invested in Capital Assets		75,485
Restricted for Other Purposes		23,612
Unrestricted		45,864
Total Net Assets	$	144,961

See accompanying notes to the basic financial statements

PETERSON ENTREPRENEURIAL TRAINING ENTERPRISE
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating Revenues:	
State Foundation	$ 708,897
Poverty Based Assistance	12,212
Total Operating Revenues	721,109
Operating Expenses:	
Salaries	262,495
Fringe Benefits	44,611
Purchased Services	353,418
Rent	41,762
Materials and Supplies	83,271
Total Operating Expenses	785,557
Operating Income	(64,448)
Non-Operating Revenues:	
Federal and State Grants	103,808
Interest	366
Total Non-Operating Revenues	104,174
Change in Net Assets	39,726
Net Assets (Deficit) at Beginning of Year	105,235
Net Assets at End of Year	$ 144,961

See accompanying notes to the basic financial statements

PETERSON ENTREPRENEURIAL TRAINING ENTERPRISE
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows Used For Operating Activities:	
Cash Received from State of Ohio	$ 805,300
Cash Payments to Employees for Services	(313,040)
Cash Payments to Suppliers for Goods and Services	(494,270)
Net Cash Used For Operating Activities	(2,010)
Cash Flows used in Capital Financing Activities:	
Acquisition of Capital Assets	(72,868)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants Received	101,026
Cash Flows from Investing Activities:	
Interest	366
Net Increase in Cash and Cash Equivalents	26,514
Cash and Cash Equivalents at Beginning of Year	44,901
Cash and Cash Equivalents at End of Year	$ 71,415
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating Income	$ (64,448)
Adjustments to Reconcile Operating Income to Net Cash Used For Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable not related to Federal and State Grants	84,191
Decrease in Accounts Payable Related to Operating Activities	(15,819)
Decrease in Accrued Wages and Benefits Payable	(3,412)
Decrease in Intergovernmental Payable	(1,458)
Decrease in Compensated Absences Payable	(1,064)
Total Adjustments	62,438
Net Cash Used For Operating Activities	$ (2,010)

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Peterson Entrepreneurial Training Enterprise Community School (the "School") is an Ohio Public Benefit Corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades 9 through 12. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School.

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax exempt organization under Section 501(C)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

The School was approved for operation under contract with Educational Resource Consultants of Ohio (the Sponsor) commencing August 1, 2005 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School contracted with Educational Management Alliance and Eaton Computer Company to perform extended educational services. One member of Educational Management Alliance and Eaton Computer Company also serves on the School's Governing Board. The School leases its building from RNS Equities LLC, where one of the partners is also on the School's Governing Board. Related party transactions are further discussed in Note 13 to the basic financial statements.

The School operates under the direction of a five-member Governing Board. The School and the ARISE Sport Management Academy Community School share the same governing board. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The primary government of the School consists of one fund, several departments and the Board. School programs include general operations and student related activities of the School. The School is associated with the Metropolitan Dayton Educational Cooperative Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 14)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

The School'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.

The School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses, and 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 School finances and meets the cash flow needs.

C. Basis of Accounting

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

D. Revenues – Exchange and Non-exchange Transactions

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 School 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Expenses

Expenses are recognized at the time they are incurred.

F. Cash and Cash Equivalents

All monies received by the School are maintained in demand deposit accounts. All funds of the School are maintained in these accounts. Total cash is presented as "Cash and Cash Equivalents" on the accompanying statement of net assets.

G. Capital Assets

Capital assets are capitalized at cost or estimated historical cost (which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Per the policy at the School, no depreciation is taken in the fiscal year of acquisition. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimated Lives
Furniture and Equipment	5-30 years
Vehicles	5-10 years

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to service already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School's termination policy. The School records a liability for accumulated unused sick leave for all employees with ten years of current service for all positions (including certified and non-certified staff). Since the School has not been in operation for ten years, there is no sick leave benefits liability.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net assets include federal and State grants restricted to expenditures for specific purposes. The School applies restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports $23,612 of restricted net assets, none of which is restricted by enabling legislation.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the State. Operating expenses are the necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

K. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. 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 School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The review identified an under payment of $3,234 to the School for fiscal year 2006.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

L. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract agreement between the School and its Sponsor does not prescribe a budgetary process for the School.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2006, the School has implemented *GASB Statement No. 42*, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, and *GASB Statement No. 47, "Accounting for Termination Benefits."*

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the School's financial statements for fiscal year 2006.

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the School's financial statements for fiscal year 2006.

NOTE 4 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying value of the School's deposits totaled $71,415 and the bank balance totaled $73,058, all of which was covered by federal depository insurance; therefore there is no custodial credit risk.

The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 5 – RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental (Federal and State grants). All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Title I	$ 14,736
State Foundation	3,234
Improving Teacher Quality	421
Education Technology	1,647
Drug Free	390
Total Intergovernmental Receivable	$ 20,428

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006:

	Balance 7/01/05	Additions	Deletions	Balance 6/30/06
Capital Assets Being Depreciated:				
Furniture and Equipment	$ -	$ 71,981	$ -	$ 71,981
Vehicles	-	3,504	-	3,504
Total Capital Assets Being Depreciated	-	75,485	-	75,485
Less Accumulated Depreciation:				
Furniture and Equipment	-	-	-	-
Vehicles	-	-	-	-
Total Accumulated Depreciation	-	-	-	-
Total Capital Assets Being Depreciated, Net	$ -	$ 75,485	$ -	$ 75,485

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Buildings and contents are covered under Westfield Insurance Company with a $1,000 deductible. Electronic data processing equipment is covered under Westfield Insurance Company with a $1,000 deductible. The School carries liability insurance with Westfield Insurance Company of $1,000,000 single occurrence and $2,000,000 aggregate.

There have been no significant reductions in insurance coverage from the last fiscal year. Settled claims have not exceeded insurance coverage for the past two fiscal years.

NOTE 7 - RISK MANAGEMENT (Continued)

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006 and 2005 were $6,146 and $2,723 respectively; 95.11 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005.

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

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 determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund 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 who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006 and 2005 were $26,643 and $13,467 respectively; 95.09 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal year 2006 were $4,495 by the School District and $4,768 made by the plan members.

NOTE 9 – POSTEMPLOYEMENT BENEFITS

The School 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 partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for 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. All 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, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $1,900 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $300,690,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer’s SERS salaries. For the School, the amount contributed to fund healthcare benefits, including the surcharge, during the 2006 fiscal year equaled $1,987.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual healthcare expenses. Expenses for health care for the fiscal year ended June 30, 2006 were $178,067,133. At June 30, 2006, SERS had net assets available for payment of health care benefits of $296.6 million. SERS has 58,788 participants eligible to receive health care benefits.

NOTE 10 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining sick leave components are derived from State Laws. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 120 days. Upon retirement, payment is made for one-fourth of the total accumulated and unused sick leave credit, up to a maximum of 120 days for employees.

B. Medical, Dental, and Vision Benefits

The School offers medical insurance through American Trust Company to full-time employees. The contribution to the monthly premium for medical insurance shall be 20% paid by the staff member and 80% paid by the Board. Monthly premiums for the medical insurance are the following:

Type of Coverage	Monthly Premium
Single	$ 401
Enrollee plus spouse	$ 681
Enrollee plus children	$ 693
Family	$ 946

NOTE 11 – OPERATING LEASE

The School subleases an office facility from RNS Equities, LLC for school space located at One Elizabeth Place, Dayton Ohio. The term of this lease began September 1, 2005 and continues through August 31, 2020. The lease payment is $9,200 per month and an additional $506 per month starting March 6, 2006 for a 60 month period to cover tenant improvement costs. Base rent shall increase at the rate of $.50 per rentable square foot each year. Monthly rental payment is equally shared between the School and ARISE Sports Management Academy.

Fiscal Year	Amount
2007	$ 58,236
2008	58,428
2009	58,619
2010	58,811
2011	57,990
2012-2016	282,703
2017-2021	239,256
	$ 814,043

NOTE 12 – CONTINGENCIES

A. Grants

The School 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2006.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data of the State, upon which State foundation funding is calculated. This adjustment resulted in a receivable of $3,234 for fiscal year 2006.

C. Litigation

A suit was filled in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process, and claims violation of the right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the School is not presently determinable.

NOTE 13 – RELATED PARTY TRANSACTIONS

The School contracted with Education Management Alliance (EMA) to perform extended educational services. One member of EMA also serves on the School's Governing Board. Total payments made for these services during the fiscal year ended June 30, 2006 were $58,800.

The Governing Board of the School is the same Governing Board as ARISE Sports Management Academy, with which it shares operating facilities and the related lease. (See Note 11).

Eaton Computer Company provides technical services and supplies to the School. The owner of the company became a member of the Governing Board beginning July 1, 2005. Total payments made for these services during the fiscal year ended June 30, 2006 were $69,188.

The School leases its building from RNS Equities, LLC. One of the partners of the company became a member of the Governing Board beginning July 1, 2006. (See Note 11).

Eric Bradley is an athletic consultant and a member of the Governing Board. Total payments made for these services during the fiscal year ended June 30, 2006 were $9,238.

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The School 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 boundaries 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 of member school districts, with six of the 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. The School paid MDECA $3,835 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

NOTE 15 - COMPLIANCE

The School did not file their 2006 annual report as required by ORC Section 117.38.

CAUDILL & ASSOCIATES, CPA's
725 5th Street
Portsmouth, Ohio 45662

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

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*

Governing Board
Peterson Entrepreneurial Training Enterprise
Montgomery County
One Elizabeth Place
Dayton, Ohio 45408

We have audited the financial statements of the business-type activities of the Peterson Entrepreneurial Training Enterprise (the School) , as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 31, 2007, in which we indicated the School implemented GASB Statements No. 42, and 47. 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 School'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 on the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

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 School'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 School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The results of our tests disclosed six instances of significant internal control deficiencies that are required to be reported under *Government Auditing Standards,* which are described in the accompanying schedule of findings and responses as items No. 2006-002, 2006-003, 2006-004, 2006-005, 2006-006, and 2006-007.

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 School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclosed all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness in internal control over financial reporting as item 2006-007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards,* which is described in the accompanying schedule of findings and responses as item No. 2006-001.

We noted a certain matter which we have reported to management of the School in a separate letter dated December 31, 2007.

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the School's responses and, accordingly, we express no opinion on it.

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

Caudill & Associates, CPA's

Caudill & Associates, CPA's
December 31, 2007

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding No.2006-001
Noncompliance Citation – Failure to file annual report in accordance with ORC Section 117.38

Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the financial statements, and the schedules used to make these management decisions.

The Ohio Revised Code Section 117.38 mandates that GAAP-basis entities must file their reports with the Auditor of State within 150 days of the entity's end of the year. In addition the public office must publish a notice in a local newspaper stating that the financial report is available for public inspection at the office of the chief fiscal officer.

The School's Fiscal Year 2006 report was not filed with the Auditor of State on time, and no notice of availability of the financial report was published.

Client Response:

The School will make efforts to ensure compliance will be met.

Finding No.2006-002
Significant Internal Control Deficiency – Failure to obtain and maintain employee contracts

Contracts for five School employees were not provided for audit. Contracts for four additional employees were not properly signed by both the employee and School administration.

The hiring of all School employees should be approved by the governing board and recorded in the board minutes. Salary rate and period of employment should also be included. Additionally, employment contracts should be prepared and signed by the employee and the appropriate School officials.

Without properly executed agreements, incorrect payment could result.

The School should develop and implement procedures to ensure all employees are approved by the Board, prior to beginning work, and formal contracts, including salary rates and other expectations, are prepared and signed by both employee and School officials.

Client Response:

The School will ensure employee contracts are obtained and maintained as appropriate in the future.

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding No.2006-003
Significant Internal Control Deficiency – Failure to maintain adequate supporting documentation for expenditures

Adequate supporting documentation is a key control in the disbursement process to determine if expenditures are for their intended use. 12% of the disbursements tested, or $37,732, were not supported by adequate supporting documentation (invoice, receipts of payments or contractual agreements). In addition, 49% of the expenditures tested, or $91,401, did not have a purchase orders approved by the Chief Executive Officer, as stipulated by the School's unofficial purchasing procedures.

The lack of adequate supporting documentation could result in funds being spent on unauthorized purchases, incorrect amounts being paid, duplication of payments and payments made to fictitious vendors. The School should require original invoices or contractual agreements be submitted and attached to the voucher before payment is made. In addition, the School should ensure purchase orders are properly issued and approved prior to contracting or acquiring goods and services as required by the School's purchasing policy.

Client Response:

The School will make efforts to ensure adequate supporting documentation exists for all disbursements and proper approval is obtained prior to purchase.

Finding No.2006-004
Significant Internal Control Deficiency – Failure to maintain a capital asset listing

Adequate capital assets inventory and listing is a key control in the School's ability to determine if capital assets are purchased and maintained for their intended use. A complete capital asset listing should be maintained at all time, updated by additions to and disposals of capital assets.

Without proper capital assets listing, the School's capital assets will be difficult to monitor, and this could result in the misappropriation of the School's fixed assets.

The School should take steps to insure a complete listing of capital assets is in place and is monitored by appropriate personnel.

Client Response:

The School will ensure capital assets inventory is performed and that a listing of capital assets is maintained.

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding No.2006-005
Significant Internal Control Deficiency – Failure to develop and maintain organizational budget

Development of an operational budget, including the periodic analysis of variances, is an important tool in helping to promote organizational efficiency and effectiveness. Variance analysis helps to identify performance issues in a timely manner and also helps ensure financial statements are correct.

The School's sponsor requires the school to approve a budget each year. However, the budget has not been monitored on a regular basis.

The School should develop and adopt an operational budget. Significant variances should be analyzed on a regular basis to help ensure School performance is aligned with stated goals and objectives.

Client Response:

The School will ensure that the budget is monitored on a regular basis.

Finding No.2006-006
Significant Internal Control Deficiency –Board approval of programs not required

During our review, we noted payments for a summer program that was not Board approved.

Without Board approval, incorrect payments and commitments could result.

The School should developed and implemented procedures to help ensure all contracts and programs are approved by the Board.

Client Response:

Summer program payments will not be paid unless Board approved.

Finding No.2006-007
Material Weakness – Failure to reconcile cash accounts

Reconciliations of cash accounts should be completed monthly to help safeguard School assets. Reconciliations ensure the accuracy and validity of entries, ensure unauthorized changes do not occur, and allow discrepancies to be resolved timely.

Failure to reconcile cash timely could result in loss of School assets and issuance of incorrect financial statements.

The School should ensure monthly cash reconciliations are completed by an independent person and initialed and dated upon completion.

Client Response:

The School will implement the auditor's recommendation.

PETERSON ENTREPRENEURIAL TRAINING ENTERPRISE
MONTGOMERY COUNTY
JUNE 30, 2006

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Not Following Purchase Order Policies	No	Reissued as finding # 2006-003
2005-002	Finding for recovery – Excess payment on invoice	Yes	N/A

Mary Taylor, CPA
Auditor of State

PETERSON ENTREPRENEURIAL TRAINING ENTERPRISE

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
MARCH 6, 2008

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