



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
BUTLER COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2011
Fiscal Year Audited Under GAGAS: 2011



Dave Yost • Auditor of State

Board of Directors
Middletown Preparatory and Fitness Academy
816 Second Street
Middletown, Ohio 45044

We have reviewed the *Independent Auditor's Report* of the Middletown Preparatory and Fitness Academy, Butler County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2010 through June 30, 2011. 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 Middletown Preparatory and Fitness Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 9, 2013

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MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
YEAR ENDED JUNE 30, 2011

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Board of Directors
Middletown Preparatory and Fitness Academy
Butler County, Ohio
816 Second Street
Middletown, Ohio 45044

We have audited the accompanying financial statements of the business-type activities of the Middletown Preparatory and Fitness, Butler County, Ohio, (the Academy), as of and for the year ended June 30, 2011, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Middletown Preparatory and Fitness Academy, Butler County, Ohio, as of June 30, 2011, and the change in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Middletown Preparatory and Fitness Academy
Butler County, Ohio
Independent Auditor's Report
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. The report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
December 31, 2012

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY

Butler County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

The discussion and analysis of the Middletown 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, 2011. 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 increased \$73. This increase was due to the decrease in expenditures of the board reserve.
- Total assets increased \$311. This increase was due to the decrease in expenditures of the board reserve.
- Liabilities increased \$238 in 2011.

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 2011?" 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.

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY

Butler County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

(Continued)

Table 1 provides a summary of the Academy's net assets for fiscal year 2011 and fiscal year 2010.

(Table 1) Net Assets

| Assets | <u>FY 2010</u> | <u>FY 2009</u> |
|----------------------|----------------|----------------|
| Current Assets: | \$693 | \$382 |
| Total Assets | <u>\$693</u> | <u>\$382</u> |
| Liabilities | | |
| Current Liabilities: | \$238 | \$ 0 |
| Total Liabilities | <u>\$238</u> | <u>\$ 0</u> |
| Net Assets | | |
| Unrestricted | <u>\$455</u> | <u>\$382</u> |
| Total Net Assets | <u>\$455</u> | <u>\$382</u> |

Total assets increased \$311.

Table 2 shows the changes in net assets for fiscal year 2011 and fiscal year 2010, as well as a listing of revenues and expenses.

(Table 2) Change in Net Assets

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|---------------------|---------------------|
| Operating Revenues | | |
| Formula Foundation Payments | \$ 1,544,782 | \$ 1,506,207 |
| Special Education Funding | \$ 119,731 | \$ 167,701 |
| Parity Aid | \$ 82,048 | \$ 79,797 |
| Sales | \$ 21,699 | \$ 21,219 |
| Non-Operating Revenues | | |
| Federal Grants | \$ 488,261 | \$ 649,169 |
| State Grants | \$ 7,721 | \$ 15,806 |
| Total Revenues | <u>\$ 2,264,242</u> | <u>\$ 2,439,899</u> |
| Operating Expenses | | |
| Purchased Services - Management Fees | \$ 2,093,343 | \$ 2,241,294 |
| Other Operating Expenses | \$ 170,826 | \$ 198,412 |
| Total Expenses | <u>\$ 2,264,169</u> | <u>\$ 2,439,706</u> |
| Increase (Decrease) in Net Assets | <u>\$ 73</u> | <u>\$ 193</u> |
| Ending Net Assets | <u>\$ 455</u> | <u>\$ 382</u> |

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY

Butler County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

(Continued)

The change in net assets increased \$73. There was a decrease in revenues of \$175,657, and a decrease in expenses of \$175,537. This was primarily due to the decrease in Federal Grants of \$168,709. Community Schools receive no support from tax revenues.

The decrease in management fees of \$147,951 was due to the decrease 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 Middletown Preparatory and Fitness Academy has no capital assets due to the nature of the full performance contract with Edvantages.

Current Financial Issues

The Middletown 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 and continued increasing to approximately 250 in FY05. In FY06 this increased to approximately 285. In FY07 this increased to approximately 295 and increased again in FY08 to approximately 310. In FY09 enrollment fell to 290 and fell again in FY10 to 266. In FY11 the Academy enrolled 274 students. The Academy receives its finances mostly from state aid. Per pupil base aid for fiscal year 2011 was \$5,703.

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 Middletown Preparatory and Fitness Academy, 7416 N. Main Dayton OH 45415 or email at tpinkerton@edvantages.com.

Middletown Preparatory and Fitness Academy
Statement of Net Assets
June 30, 2011

Assets

Current Assets:

| | |
|-------------------------------------|------------|
| Equity in Cash and Cash Equivalents | \$ 455 |
| Accounts Receivable | <u>238</u> |

| | |
|----------------------|----------------------|
| Total Current Assets | <u><u>\$ 693</u></u> |
|----------------------|----------------------|

Liabilities

| | |
|------------------|---------------|
| Accounts Payable | <u>\$ 238</u> |
|------------------|---------------|

| | |
|---------------------------|----------------------|
| Total Current Liabilities | <u><u>\$ 238</u></u> |
|---------------------------|----------------------|

Net Assets

| | |
|--------------|---------------|
| Unrestricted | <u>\$ 455</u> |
|--------------|---------------|

| | |
|------------------|----------------------|
| Total Net Assets | <u><u>\$ 455</u></u> |
|------------------|----------------------|

See accompanying notes to basic financial statements.

Middletown Preparatory and Fitness Academy
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year ended June 30, 2011

| | |
|--------------------------------------|----------------------|
| Operating Revenues | |
| Foundation Payments | \$ 1,746,561 |
| Sales | <u>21,699</u> |
| Total Operating Revenues | <u>1,768,260</u> |
| | |
| Operating Expenses | |
| Purchased Services - Management Fees | 2,093,343 |
| Management Fee Adjustment | <u>170,826</u> |
| Total Operating Expenses | <u>2,264,169</u> |
| | |
| Operating Gain (Loss) | (495,909) |
| | |
| Non-Operating Revenues | |
| Federal Grants | 488,261 |
| State Grants | <u>7,721</u> |
| Total Non-Operating Revenues | <u>495,982</u> |
| | |
| Change in Net Assets | 73 |
| | |
| Net Assets at Beginning of Year | <u>382</u> |
| | |
| Net Assets at End of Year | <u><u>\$ 455</u></u> |

See accompanying notes to basic financial statements.

Middletown Preparatory and Fitness Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities

| | |
|--|-------------|
| Cash Received from Sales | \$ 21,699 |
| Cash Received from State of Ohio | 1,746,323 |
| Cash Payments to Suppliers for Goods and Services | (2,263,931) |
| Net Cash Used for Operating Activities | (495,909) |

Cash Flows From Non-Capital Financing Activities

| | |
|--|---------|
| Cash Received from Federal Grants | 488,261 |
| Cash Received from State Grants | 7,721 |
| Net Cash From Non-Capital Financing Activities | 495,982 |

Net Increase in Cash 73

Cash at Beginning of Year 382

Cash at End of Year \$ 455

Reconciliation of Operating Loss

Net Cash Used for Operating Activities:
Operating Loss \$ (495,909)

Changes in Assets and Liabilities:

(Increase) in Accounts Receivable (238)
Increase in Accounts Payable 238

Net Cash Used for Operating Activities \$ (495,909)

See accompanying notes to basic financial statements.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

1. DESCRIPTION OF THE ENTITY

The Middletown 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 school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy contracts with Edvantages Inc. for most of its functions. See Note 4.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of five years commencing in July 2005. 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 July 1, 2010 the Academy is under contract with the Ohio Council of Community Schools for a period of 10 years.

The Academy operates under the direction of a five-member Board of Directors (The Board). The Board is responsible for carrying out the provisions of the contract with the sponsor includes, 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:

| | |
|---|-------------------|
| Columbus Preparatory and Fitness Academy | Columbus, Ohio |
| Mount Healthy Preparatory and Fitness Academy | Mt. Healthy, Ohio |
| Northland Preparatory and Fitness Academy | Columbus, Ohio |
| Springfield Preparatory and Fitness Academy | Springfield, Ohio |
| Toledo Preparatory and Fitness Academy | Toledo, Ohio |
| Trotwood Preparatory and Fitness Academy | Trotwood, 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

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

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.

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

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

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, 2011.

G. Concentration of Business and Current Risk

As of June 30, 2011, 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 Middletown, Ohio. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000. At June 30, 2011 the Academy's cash balance was \$455, so 100 percent was covered by FDIC. The Academy had no investments at June 30, 2011, or during the fiscal year.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

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.

3. RISK MANAGEMENT

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

4. AGREEMENT WITH EDVANTAGES, INC.

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

A. Financial Provisions

1. Management Consulting and Operation Fee

The Academy pays Edvantages all state and federal per pupil allocations, transportation, technology or other operational funds, including private donations, endowments, or grants applied for on behalf of the Academy, except for two percent of the base state per pupil allocation. This two percent is to be retained by the Academy as

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

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. The actual transactions related to these expenditures are performed by Edvantages under the Academy's direction.
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. 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.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

B. Personnel

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

C. Agreement Termination

1. Termination by the Academy

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

2. Termination by Edvantages

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

5. DEFINED BENEFIT PENSION PLANS

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

A. School Employees Retirement System

Edvantages, on behalf of the Academy, contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

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. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's required contributions to SERS for the fiscal years ended June 30, 2011, 2012 and 2010 were \$68,508, \$72,724 and \$52,218, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (Note 4).

B. State Teachers Retirement System

Edvantages, on behalf of the Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determines annuity factor. The DC Plan allows members to place all their membership contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2011

payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ending June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions to STRS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$102,318, \$125,688 and \$160,072, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (Note 4).

6. POST EMPLOYMENT BENEFITS

STRS Postemployment Benefits

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit

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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, 2011, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The Academy's required contributions to STRS Health Care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$7,308, \$8,978 and \$11,434, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (Note 4).

SERS Postemployment Benefits

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.

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 (ORC) 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 2011 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. SERS' reimbursement to retirees was \$45.50. 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 year 2011, the actuarially required allocation is .76%. The School's required contributions to SERS Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009 were \$3,719, \$3,948 and \$528, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (Note 4).

Health Care Plan

ORC 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

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pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC 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% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is .46%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's required contributions to SERS Health Care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$6,998, \$7,428 and \$5,595, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (Note 4).

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 on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

7. PURCHASED SERVICES

For the period ended June 30, 2011, purchased service expenses represent payments for management services rendered by Edvantages (see note 4) and STRS and SERS payments made by the Academy on behalf of Edvantages.

| | |
|------------------------------|---------------------|
| Purchased Services Agreement | \$ 2,093,343 |
| SERS and STRS Payments | <u>\$ 170,826</u> |
| Total Purchased Services | <u>\$ 2,264,169</u> |

Middletown Preparatory and Fitness Academy
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8. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the academy at June 30, 2011.

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. The review for the fiscal year 2011 was completed November 2011 with an adjustment of \$238.

9. METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION

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

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

Middletown Preparatory and Fitness Academy
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10. MANAGEMENT COMPANY EXPENSES

As per the agreement with Edvantages (see note 4), 98% of the school's revenue is paid to Edvantages as a management fee. The related 'purchased services' expense totaled \$2,264,169 for the year ended June 30, 2011 including STRS and SERS payments made by the Academy on behalf of Edvantages. The Board approved a resolution that allowed Edvantages to spend the 2% amount for the benefit of the Academy.

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

| <u>Direct Costs</u> | |
|-------------------------------------|---------------------|
| Salaries & Wages | \$ 1,273,471 |
| Employees' Benefits | 313,477 |
| Professional and Technical Services | 210,402 |
| Property Services | 278,572 |
| Sponsorship Fees | 56,731 |
| Travel | 18,254 |
| Communications | 94,154 |
| Other Purchased Services | 170,931 |
| Books, Periodicals and Films | 43,197 |
| Other Supplies | 62,198 |
| Other Direct Costs | <u>60,712</u> |
| Total Expenses | <u>\$ 2,582,099</u> |

Edvantages charges expenses benefiting more than one school based on the percentage of FTE students per school in relation to all the schools that Edvantages manages.



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Board of Directors
Middletown Preparatory and Fitness Academy
Butler County, Ohio
816 Second Street
Middletown, Ohio 45044

We have audited the financial statements of the business-type activities of Middletown Preparatory and Fitness Academy, Butler County, Ohio, (the Academy), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 31, 2012. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the Board Members, the Academy's sponsor, and others within the Academy. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
December 31, 2012



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Independent Auditor's Report on Applying Agreed Upon Procedures

Board of Directors
Middletown Preparatory and Fitness Academy
Butler County, Ohio
816 Second Street
Middletown, Ohio 45044

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Middletown Preparatory and Fitness Academy (the Academy) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Academy amended its anti-harassment policy on May 19, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
December 31, 2012

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Dave Yost • Auditor of State

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY

BUTLER 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
APRIL 23, 2013**