

**TOLEDO PREPARATORY AND FITNESS ACADEMY
LUCAS COUNTY, OHIO**

(AUDITED)

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2014*

TODD TAYLOR, TREASURER



Dave Yost • Auditor of State

Board of Directors
Toledo Preparatory and Fitness Academy
20 Arco Drive
Toledo, Ohio 43607

We have reviewed the *Independent Auditor's Report* of the Toledo Preparatory and Fitness Academy, Lucas County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Toledo Preparatory 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

March 15, 2015

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**TOLEDO PREPARATORY AND FITNESS ACADEMY
LUCAS COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Toledo Preparatory and Fitness Academy
Lucas County
20 Arco Drive
Toledo, Ohio 43607

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Toledo Preparatory and Fitness Academy, Lucas County, Ohio as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Toledo Preparatory and Fitness Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Toledo Preparatory and Fitness Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Toledo Preparatory and Fitness Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Toledo Preparatory and Fitness Academy, Lucas County, Ohio as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2014, on our consideration of the Toledo Preparatory and Fitness Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Toledo Preparatory and Fitness Academy's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 26, 2014

TOLEDO PREPARATORY AND FITNESS ACADEMY

Lucas County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The Management's Discussion and Analysis of the Toledo 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, 2013. Prior to fiscal year 2009, the Academy was known as the Mt. Healthy Preparatory and Fitness Academy. 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 position remained at \$100.
- Total assets increased \$49,856.
- Liabilities increased to \$49,856.

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 position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

Statement of Net Position

The Statement of Net Position answers the question, "How did we do financially during 2014?" 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.

TOLEDO PREPARATORY AND FITNESS ACADEMY

Lucas County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

(Continued)

Table 1 provides a summary of the Academy's net position for fiscal year 2014 and fiscal year 2013.

(Table 1) Net Position

Assets	<u>FY 2014</u>	<u>FY 2013</u>
Current Assets:	\$56,844	\$6,988
 Total Assets	 \$56,844	 \$6,988
<hr/>		
Liabilities		
Current Liabilities:	\$56,744	\$6,888
 Total Liabilities	 \$56,744	 \$6,888
<hr/>		
Net Position		
Unrestricted	\$100	\$100
<hr/>		
Total Net Position	\$100	\$100

Total assets increased \$49,856.

Table 2 shows the changes in net position for fiscal year 2014 and fiscal year 2013, as well as a listing of revenues and expenses.

(Table 2) Change in Net Position

	2014	2013
Operating Revenues		
Unrestricted State Payments	\$ 1,395,108	\$ 1,133,405
Sales	\$ 4,864	\$ 4,191
Non-Operating Revenues		
Federal Grants	\$ 246,269	\$ 142,738
State Grants	\$ 10,131	\$ 1,623
Total Revenues	\$ 1,656,372	\$ 1,281,957
<hr/>		
Operating Expenses		
Purchased Services - Management Fees	\$ 1,549,614	\$ 1,203,441
Other Operating Expenses	\$ 106,758	\$ 78,516
Total Expenses	\$ 1,656,372	\$ 1,281,957
<hr/>		
Increase (Decrease) in Net Position	\$ -	\$ -
Beginning Net Position	\$ 100	\$ 100
Ending Net Position	\$ 100	\$ 100

TOLEDO PREPARATORY AND FITNESS ACADEMY

Lucas County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

(Continued)

Net position remained at \$100. There was an increase in revenues of \$374,415, and an increase in expenses of \$374,415. This was primarily due to the increase in Unrestricted State Payments of \$261,703 and an increase in Federal Grants of \$103,531. Community Schools receive no support from tax revenues.

The increase in management fees of \$339,581 was due to the increase in revenues and the nature of the full performance contract. These additional funds were used to offset expenses related to the increase in enrollment.

Capital Assets

The Toledo Preparatory and Fitness Academy has no capital assets due to the nature of the full performance contract with Performance Academies.

Current Financial Issues

The Toledo Preparatory and Fitness Academy was formed in fiscal year 2006 through a contract with the Ohio Council of Community Schools. During fiscal year 2006 school year there were approximately 36 students enrolled. This increased to 52 in fiscal year 2007 and 88 in fiscal year 2008. In fiscal year 2009 the enrollment was approximately 65 students and in fiscal year 2010 the enrollment was 98. In fiscal year 2011 the enrollment was 95 which increased to 142 in fiscal year 2012 and again to 146 in fiscal year 2013. Enrollment in 2014 was 179. The Academy receives its finances mostly from state aid. Per pupil base aid for fiscal year 2014 was \$5,745.

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 Todd Taylor, Treasurer at Eastland Performance Academy, 2 Easton Oval Suite 525 Columbus OH 43219 or email Ttaylor@performanceacademies.com.

Toledo Preparatory and Fitness Academy
Statement of Net Position
June 30, 2014

Assets

Current Assets:

Equity in Cash and Cash Equivalents	\$ 100
Accounts Receivable	<u>\$ 56,744</u>

Total Current Assets	<u><u>\$ 56,844</u></u>
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Liabilities

Accounts Payable	<u>\$ 56,744</u>
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Total Current Liabilities	<u>\$ 56,744</u>
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Net Position

Unrestricted	<u>\$ 100</u>
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Total Net Position	<u><u>\$ 100</u></u>
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SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

Toledo Preparatory and Fitness Academy
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year ended June 30, 2014

Operating Revenues	
Unrestricted State Payments	\$ 1,395,108
Sales	<u>4,864</u>
Total Operating Revenues	<u>1,399,972</u>
Operating Expenses	
Purchased Services - Management Fees	1,549,614
Other Operating Expenses	<u>106,758</u>
Total Operating Expenses	<u>1,656,372</u>
Operating Gain (Loss)	(256,400)
Non-Operating Revenues	
Federal Grants	246,269
State Grants	<u>10,131</u>
Total Non-Operating Revenues	<u>256,400</u>
Change in Net Position	-
Net Position at Beginning of Year	<u>100</u>
Net Position at End of Year	<u><u>\$ 100</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

Toledo Preparatory and Fitness Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities

Cash Received from Sales	\$ 4,864
Cash Received from State of Ohio	1,388,411
Cash Payments to Suppliers for Goods and Services	<u>(1,606,516)</u>
Net Cash Used for Operating Activities	<u>(213,241)</u>

Cash Flows From Non-Capital Financing Activities

Cash Received from Federal Grants	203,110
Cash Received from State Grants	<u>10,131</u>
Net Cash Provided by Non-Capital Financing Activities	<u>213,241</u>

Net Increase / (Decrease) in Cash -

Cash at Beginning of Year 100

Cash at End of Year \$ 100

Reconciliation of Operating Loss to

Net Cash used for Operating Activities:

Operating Loss \$ (256,400)

Changes in Assets and Liabilities:

(Increase) in Accounts Receivable (6,697)

Increase in Accounts Payable 49,856

Net Cash Used for Operating Activities \$ (213,241)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

1. DESCRIPTION OF THE ENTITY

The Toledo 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 eight.

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 Performance Academies 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 2006. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. 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 which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board of Directors leases the Academy's one instructional/support facility from Performance Academies as noted in the management agreement. The facility is staffed with teaching personnel employed by Performance Academies.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 more significant of the Academy's accounting policies are described below.

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

A. Basis of Presentation

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

Enterprise fund reporting focuses on the determination of operating revenue, changes in net position, 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 Position. The Statement of Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The Statement of Cash Flows provides information about how the Academy finances and meets cash flow needs of its enterprise activities.

C. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

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 Position

Net position represents the difference between the assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or restrictions of other governments. The Academy applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available.

G. Concentration of Business and Current Risk

As of June 30, 2014, funds received from the federal and state of Ohio governments represented 99.7% 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.

H. Deposits

The Academy maintains its cash balance in a demand deposit account in one financial institution located in Columbus, Ohio. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At June 30, 2014 the Academy's cash balance was \$100, so 100 percent was covered by FDIC. The Academy had no investments at June 30, 2014, or during the fiscal year.

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J. 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 goods or services that are 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 Performance Academies, Performance Academies 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 PERFORMANCE ACADEMIES, INC.

On July 1, 2013, the Academy contracted with Performance Academies, 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 Performance Academies 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:

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

A. Financial Provisions

1. Management Consulting and Operation Fee

The Academy pays Performance Academies 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 Performance Academies on behalf of the Academy as a Board Reserve to be used by June 30 of each year for the Academy's benefit. The amount paid to Performance Academies by the Academy is reflected in the Statement of Revenues, Expenses, and Changes in Net Position 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 Performance Academies under the Academy's direction.

3. Performance Academies Financial Responsibilities

Performance Academies is responsible for the payment of all wages, compensation and expenses of Performance Academies or the Academy including the Superintendent, Treasurer, assistants, administrators, clerical staff, and teachers. Performance Academies is also responsible for janitorial services, worker's compensation, other insurance, necessary comprehensive or premises liability insurance, and attorney fees. Performance Academies 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 Performance Academies.

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

4. Financial Reporting by Performance Academies

Performance Academies 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. Performance Academies also provides consultation on annual audits in compliance with state law and regulations showing the manner in which funds are spent for the Academy. Performance Academies 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 be given a reasonable opportunity to inspect, examine, audit and otherwise review the books, records, accounts, ledgers and other financial documents of Performance Academies 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 Performance Academies with statements of all funds received by the Academy from grants applied for by the Academy, donations or endowments and statements of all expenditures and investments made with such funds, as well as with the Board Reserve funds.

B. Personnel

Performance Academies selects and hires all teaching staff, administrative or other staff. They also evaluate, assign, discipline and transfer personnel. Performance Academies also selects the Academy's Superintendent and establishes employment terms. During the first two years of operation, the Superintendent shall be a representative of Performance Academies. Performance Academies 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 Performance Academies and are paid by Performance Academies.

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

C. Agreement Termination

1. Termination by the Academy

The Academy may terminate the Contract after prior written notice to Performance Academies if the Academy ceases to be approved by the Ohio Council of Community Schools as an Ohio Community School and the Academy or Performance Academies cannot secure another sponsor; upon sixty days prior written notice in the event that Performance Academies 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 Performance Academies fails to remedy a material breach of its duties or obligation within six months after written notice of the breach is provided to Performance Academies by the Academy, if Performance Academies has failed to cure such breach during the first three months of the notice period.

2. Termination by Performance Academies

Performance Academies 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 Performance Academies.

5. DEFINED BENEFIT PENSION PLANS

The Academy has contracted with Performance Academies 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.

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

A. School Employees Retirement System

Plan Description - Performance Academies, on behalf of the Academy, contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$14,249, \$13,048, and \$7,272 respectively; which were equal to the amount contributed for each year. Contributions are paid and reported by the Management Co. (See Note 4 and Note 10).

B. State Teachers Retirement System of Ohio

Plan Description - Performance Academies, on behalf of the Academy, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 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 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$84,992, \$59,960, and \$41,496 respectively; which were equal to the amount contributed for each year. Contributions are paid and reported by the Management Co. (See Note 4 and Note 10).

Toledo Preparatory and Fitness Academy
Lucas County
Notes to the Basic Financial Statements
June 30, 2014

6. POST EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - Performance Academies, Inc., on behalf of the Academy, participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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 monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

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Active members do not contribute to the postemployment benefit plans. The 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.

The Academy's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$152, \$159 and \$3,854, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (See Note 4 and Note 10).

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$827, \$737 and \$429, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (See Note 4 and Note 10).

B. State Teachers Retirement System of Ohio

Plan Description - Performance Academies, Inc., on behalf of the Academy, contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$6,538, \$4,612 and \$3,192, respectively; which were equal to the required contributions for each year and are paid and reported by the Management Co. (See Note 4 and Note 10).

Toledo Preparatory and Fitness Academy
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7. OPERATING EXPENSES

For the period ended June 30, 2014, operating expenses primarily represent payments for management services rendered by Performance Academies (See Note 4 and Note 10) and STRS and SERS payments made by the Academy on behalf of Performance Academies.

Purchased Services Agreement	\$1,549,614
SERS and STRS Payments	<u>\$ 106,758</u>
Total Performance Academies	<u>\$1,656,372</u>

8. CONTINGENCIES

A. Grants and ADM

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, 2014.

B. State Foundation Funding

The Ohio Department of Education (ODE) 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 foundation funding is calculated. As a result of the fiscal year 2014 reviews, the Academy owes \$6,697 to ODE. This amount has been reported as an accounts payable on the statement of net position.

Toledo Preparatory and Fitness Academy
 Lucas County
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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. Performance Academies paid MDECA for services provided during the fiscal year for the Academy. Financial information can be obtained from Dean Reineke, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

10. MANAGEMENT COMPANY EXPENSES

As per the agreement with Performance Academies (see note 4), 98% of the school's revenue is paid to Performance Academies as a management fee. The related 'purchased services' expense totaled \$1,656,372 for the year ended June 30, 2014 including STRS and SERS payments made by the Academy on behalf of Performance Academies.

Performance Academies incurred the following expenses on behalf of the school:

Direct Expenses:	
Salaries & Wages	\$ 686,563
Employees' Benefits	171,851
Professional and Technical Services	183,342
Property Services	299,514
Sponsorship Fees	27,353
Travel	27,444
Communications	84,801
Other Purchased Services	96,125
Books, Periodicals and Films	83,402
Other Supplies	34,612
Other Direct	<u>29,897</u>
Total Expenses	<u>\$ 1,724,904</u>

There were no indirect charges for fiscal year 2014.



Julian & Grube, Inc.

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

Toledo Preparatory and Fitness Academy
Lucas County
20 Arco Drive
Toledo, Ohio 43607

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Toledo Preparatory and Fitness Academy, Lucas County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Toledo Preparatory and Fitness Academy's basic financial statements and have issued our report thereon dated December 26, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Toledo Preparatory and Fitness Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Toledo Preparatory and Fitness Academy's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Toledo Preparatory and Fitness Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors
Toledo Preparatory and Fitness Academy

Compliance and Other Matters

As part of reasonably assuring whether the Toledo Preparatory and Fitness 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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Toledo Preparatory and Fitness Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Toledo Preparatory and Fitness Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a period at the end.

Julian & Grube, Inc.
December 26, 2014



Dave Yost • Auditor of State

TOLEDO PREPARATORY AND FITNESS ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 26, 2015**