



**Auditor of State
Betty Montgomery**

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
BUTLER COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Middletown Preparatory and Fitness Academy
Butler County
816 Second Avenue
Middletown, Ohio 45044

To the Board of Trustee:

We have audited the Balance Sheet of the Middletown Preparatory and Fitness Academy, Butler County, Ohio (the Academy), as of June 30, 2003, and the related Statements of Revenue, Expenses, and Changes in Retained Earnings and of Cash Flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Middletown Preparatory and Fitness Academy, Butler County, as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 17, 2004

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Middletown Preparatory and Fitness Academy
Balance Sheet
As of June 30, 2003

| | |
|-----------------------------------|------------------------|
| Assets | |
| Cash | \$ 2,414 |
| Intergovernmental Receivable | <u>6,646</u> |
| Total Assets | <u><u>\$ 9,060</u></u> |
| | |
| Liabilities and Fund Equity | |
| | |
| Liabilities | |
| Service Provider Payable | \$ 8,927 |
| | |
| Fund Equity | |
| Retained Earnings | <u>133</u> |
| Total Liabilities and Fund Equity | <u><u>\$ 9,060</u></u> |

(See Accompanying Notes)

Middletown Preparatory and Fitness Academy
Statement of Revenue, Expenses, and
Changes in Retained Earnings
For the period ended June 30, 2003

| | |
|--|----------------------|
| Operating Revenues | |
| Foundation Payments | \$ 364,484 |
| Disadvantaged Pupil Impact Aid | 9,125 |
| Special Education Funding | 2,329 |
| Other Operating Funding | <u>7,066</u> |
| Total Operating Revenues | <u>383,004</u> |
| | |
| Operating Expenses | |
| Purchased Services - Management Fees | 721,746 |
| Other Operating Expenses | <u>14,597</u> |
| Total Operating Expenses | <u>736,343</u> |
| | |
| Net Operating Loss | (353,339) |
| | |
| Non-Operating Revenues | |
| Federal Grants | 303,472 |
| State Grants | <u>50,000</u> |
| Total Non-Operating Revenues | <u>353,472</u> |
| | |
| Net Income | 133 |
| | |
| Retained Earnings at Beginning of Period | <u>-</u> |
| | |
| Retained Earnings at End of Period | <u><u>\$ 133</u></u> |

(See Accompanying Notes)

Middletown Preparatory and Fitness Academy

Statement of Cash Flows

For the Period Ended June 30, 2003

| | |
|---|----------------------|
| Cash Flows from Operating Activities | |
| Cash Received from State of Ohio | \$ 383,004 |
| Cash Payements to Suppliers for Goods and Services | <u>(736,343)</u> |
| Net Cash Used for Operating Activities | <u>(353,339)</u> |
| | |
| Cash Flows From Non-Capital Financing Activities | |
| Cash Received from State and Federal Grants | <u>353,472</u> |
| | |
| Net Increase in Cash | 133 |
| | |
| Cash at Beginning of Period | <u>-</u> |
| | |
| Cash at End of Period | <u><u>\$ 133</u></u> |

(See Accompanying Notes)

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MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

DESCRIPTION OF THE ENTITY

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

The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy contracts with Edvantages, corporation for most of its functions. See Note 8.

The Academy was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing in July 2002 through June 30, 2007. The Sponsor is responsible for evaluation the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. Effective May 1, 2004 the Academy is under contract with the Ohio Council of Community Schools for a period of 5 years.

The Academy operates under the direction of a 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 populations, 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. The facility is staffed with teaching personnel employed by Edvantages. The Board also operates the Trotwood Preparatory and Fitness Academy in Trotwood, Ohio.

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, provided they do no conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

A. Basis of Presentation

The Academy uses enterprise accounting to track and report its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

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 balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. 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.

D. Cash and Cash Equivalents

All cash received by the academy is maintained in a demand deposit account. For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the state Disadvantaged Pupil Impact Aid (DPIA) Program, and the state Special Education program. Revenues from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

Grants and entitlements are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in the State of Ohio Community School Grant and the Federal Community School Program through the Ohio Department of Education. Under these programs, the Academy was awarded and received \$150,000 to offset start-up costs of the Academy. Revenues received from these programs are recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above programs for the 2003 school year totaled \$736,476.

F. Intergovernmental receivables

The academy has recognized on its balance sheet an "Intergovernmental Receivable". This consists of Foundation funding applied for during the fiscal year. The total of \$4,646 is remaining to be received from the State as of June 30, 2003. It also consists of Federal awards that remained to be received as of June 30, 2003 in the amount of \$2,000.

G. Service Provider Payables

The academy has recognized on its balance sheet a "Service Provider Payable". This is for funds owed Edvantages based upon 98% of funds due from State and Federal receivables as per the Management Agreement.

3. Concentration of Business and Current Risk

As of June 30, 2003, 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.

The Academy maintains its cash balance in a demand deposit account in one financial institution located in Trotwood, Ohio. The balance is insured by the Federal Deposit Insurance Corporation for up to \$100,000. At June 30, 2003 the Academy's cash balance was less than \$100,000.

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

4. RISK MANAGEMENT

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

5. SERVICE AGREEMENT WITH EDVANTAGES

The Academy entered into an annual agreement on March 1, 2002 with Edvantages, which is a corporation that has applied for nonprofit 501(c) 3 status. This contract with Edvantages, an educational, consulting, and management company; is for planning, instructional, administrative and technical services required for the operation of the Academy. Under the contract, Edvantages is required to provide the following services and functions:

To provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan, assessment and accountability plan, and the sponsorship contract.

Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and /or payroll taxes with respect to all personnel, providing services to the Academy on behalf of Edvantages. Also, to insure all personnel possess any and all certifications or licensures which may be required by law.

Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to Edvantages. In cases where the equipment is unrecoverable, the Academy shall reimburse Edvantages for the fair market value of the equipment.

Curricular services limited to standardized curriculum developed by Edvantages.

For these services, the Academy is required to pay Edvantages, 98% of the Academy's "...revenues consisting of all state and federal per pupil allocation, transportation, technology, or other operational, funds, including private donations, endorsements or grants applied for on behalf of the Academy".

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

6. DEFINED BENEFIT PENSION PLANS

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

- A. Edvantages, on behalf of the Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the year ended June 30, 2003 was \$20,874; 100 percent has been contributed for fiscal year 2003.

- B. 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

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ending June 30, 2003, plan members were required to contribute 9.3 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 contribution for pension obligations to STRS for the year ended June 30, 2003 was \$89,814; 100 percent has been contributed for fiscal year 2003.

7. OTHER POST EMPLOYEMENT 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.

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million.

At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$49,247 during the 2003 fiscal year.

8. PURCHASED SERVICES

For the period ended June 30, 2003, purchased service expenses represent payments for management services rendered by Edvantages (see note 5).

| | |
|------------------------------|------------|
| Purchased Services Agreement | \$ 721,746 |
|------------------------------|------------|

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

9. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the academy at June 30, 2003.

B. Litigation

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

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the academy. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state student enrollment data to the State, upon which state Foundation funding is calculated. This review resulted in state funding being adjusted. The review for the fiscal year 2003 was completed August 2003 with an underpayment of \$4,646.

10. STATE SCHOOL FUNDING DECISION

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

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

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

11. RELATED PARTY

Joanne Neal (a Board Member) is the owner and CEO of Business Map. During the report period, the Board contracted with Business Map to provide program application and administration services. The Board paid \$1000 to Business Map for the period of July 1, 2002 through June 30, 2003.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Middletown Preparatory and Fitness Academy
Butler County
816 Second Avenue
Middletown, Ohio 45044

To the Board of Trustee:

We have audited the financial statements of Middletown Preparatory and Fitness Academy, Butler County, Ohio (the Academy), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated December 17, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A Reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated December 17, 2004.

This report is intended solely for the information and use of the audit committee, management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 17, 2004

**MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

FINDING NUMBER 2003-001

Reportable Condition

Financial reporting

The Academy used the USAS (Uniform School Accounting System) system of accounting and produced a 4502 report (cash basis statement of accounts). However, the 4502 report was inaccurate and did not properly report the Academy's revenue, expenses, and balances. The receipts and disbursements per the Treasurer's monthly ledgers and reports were incorrect and did not agree between each other or to the 4502 report. The various financial spreadsheets provided for the audit period, each with slightly adjusted financial numbers, appeared to be created manually by the Treasurer and not printed from the Academy's accounting system. As a result, we could not rely on the accuracy of the spreadsheets/reports without additional audit procedures. Failure to maintain accurate and up to date records does not allow the Academy to properly monitor its operations or provide correct financial reports to the Board; and could result in a loss of funds without timely detection, and management decisions based on incorrect information.

We recommend that the Treasurer record all financial information for the Academy on a timely basis using the Academy's accounting system. The revenue and expenditure ledgers should be compared to the monthly Treasurer's reports to determine that they agree, and also reconciled to the monthly bank statements.



**Auditor of State
Betty Montgomery**

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**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
FEBRUARY 22, 2005**