



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, OHIO

REGULAR AUDIT

For the Year Ended June 30, 2014
Fiscal Year Audited Under GAGAS: 2014



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, 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 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

February 3, 2015

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MIDDLETOWN PREPARATORY AND FITNESS ACADEMY
BUTLER COUNTY, OHIO
YEAR ENDED JUNE 30, 2014

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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

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

To the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Middletown Preparatory and Fitness Academy, Butler County, Ohio, (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the 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 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 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 the overall financial statement presentation.

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

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, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the 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 19, 2014, 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. 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 Academy's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 19, 2014

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY

Butler County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

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, 2014. 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 decreased \$9,154.
- Liabilities decreased \$9,154.

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.

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY

Butler 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 FY14 and FY13.

(Table 1) Net Position

Assets	<u>FY 2014</u>	<u>FY 2013</u>
Current Assets:	\$9,856	\$19,010
Total Assets	<u>\$9,856</u>	<u>\$19,010</u>
Liabilities		
Current Liabilities:	\$9,756	\$18,910
Total Liabilities	<u>\$9,756</u>	<u>\$18,910</u>
Net Position		
Unrestricted	<u>\$100</u>	<u>\$100</u>
Total Net Position	<u>\$100</u>	<u>\$100</u>

Total assets and liabilities decreased \$9,154.

Table 2 shows the changes in net position, revenues and expenses for FY14 and FY13.

(Table 2) Change in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Unrestricted State Payments	\$ 2,029,859	\$ 1,814,120
Sales	\$ 11,934	\$ 13,406
Non-Operating Revenues		
Federal Grants	\$ 349,104	\$ 303,366
State Grants	\$ 16,813	\$ 3,786
Total Revenues	\$ 2,407,710	\$ 2,134,678
Operating Expenses		
Purchased Services - Management Fees	\$ 2,169,912	\$ 1,936,242
Other Operating Expenses	\$ 237,798	\$ 198,346
Total Expenses	\$ 2,407,710	\$ 2,134,588
Increase (Decrease) in Net Position	\$ -	\$ 90
Ending Net Position	<u>\$ 100</u>	<u>\$ 100</u>

Net position remained at \$100. There was an increase in revenues of \$273,032, and an increase in expenses of \$273,122. This was primarily due to the increase in Unrestricted State Payments of \$215,739. Community Schools receive no support from tax revenues.

MIDDLETOWN PREPARATORY AND FITNESS ACADEMY

Butler County

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

Unaudited
(Continued)

The increase in Purchased Services- Management Fees of \$233,670 was due to the increase in revenues and the nature of the full performance contract.

Capital Assets

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

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 and in FY12 there were 260 students. Enrollment increased slightly to 264 in FY13 and again to 266 in FY14. 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 Toby Pinkerton, Treasurer, at Middletown Preparatory and Fitness Academy, 7416 N. Main St. Dayton, OH 45415 or email at tpinkerton@performanceacademies.com.

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

Assets

Current Assets:

Equity in Cash and Cash Equivalents	\$ 100
Accounts Receivable	<u>\$ 9,756</u>

Total Current Assets	<u><u>\$ 9,856</u></u>
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Liabilities

Accounts Payable	\$ 9,756
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Total Current Liabilities	<u><u>\$ 9,756</u></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 basic financial statements.

Middletown 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	\$ 2,029,859
Sales	<u>\$ 11,934</u>
Total Operating Revenues	<u>\$ 2,041,793</u>
Operating Expenses	
Purchased Services - Management Fees	\$ 2,169,912
Other Operating Expenses	<u>\$ 237,798</u>
Total Operating Expenses	<u>\$ 2,407,710</u>
Operating Gain (Loss)	\$ (365,917)
Non-Operating Revenues	
Federal Grants	\$ 349,104
State Grants	<u>\$ 16,813</u>
Total Non-Operating Revenues	<u>\$ 365,917</u>
Change in Net Position	
Net Position at Beginning of Year, Restated	<u>\$ 100</u>
Net Position at End of Year	<u><u>\$ 100</u></u>

See accompanying notes to the basic financial statements.

Middletown 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	\$ 11,934
Cash Received from State of Ohio	\$ 2,039,013
Cash Payments to Suppliers for Goods and Services	<u>\$ (2,416,864)</u>
Net Cash Used for Operating Activities	<u>\$ (365,917)</u>

Cash Flows From Non-Capital Financing Activities

Cash Received from Statel Grants	\$ 16,813
Cash Received from Federal Grants	<u>\$ 349,104</u>
Net Cash From Non-Capital Financing Activities	<u>\$ 365,917</u>

Net Increase in Cash	\$ -
Cash at Beginning of Year	<u>\$ 100</u>
Cash at End of Year	<u><u>\$ 100</u></u>

Reconciliation of Opeating Loss	
Net Cash Used for Operating Activities:	
Operating Loss	\$ (365,917)
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	\$ 9,154
Decrease in Accounts Payable	<u>\$ (9,154)</u>
Net Cash Used for Operating Activities	<u><u>\$ (365,917)</u></u>

See accompanying notes to the basic financial statements.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2014

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 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 5.

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 that 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 Performance Academies as noted in the management agreement. The facility is staffed with teaching personnel employed by Performance Academies. The Board also operates the following schools:

Mt. Healthy Preparatory and Fitness Academy	Cincinnati, Ohio
Springfield Preparatory and Fitness Academy	Springfield, Ohio
Trotwood Preparatory and Fitness Academy	Trotwood, 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

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 more significant of the Academy's accounting policies are described below.

Middletown Preparatory and Fitness Academy
Butler 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 the change 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.

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.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2014

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. The Academy's net positions are unrestricted at June 30, 2014.

G. Concentration of Business and Current Risk

As of June 30, 2014, funds received from the federal and state of Ohio governments represented 99% 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 two financial institutions located in Middletown, 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.

I. 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.

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 cost 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.

K. Subsequent Events

In preparing these financial statements, the Academy had evaluated any transactions for potential recognition or disclosure through December 19, 2014, the date the financial statements were available to be issued.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2014, the Academy has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees."

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Academy.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2014

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 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.

5. 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:

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 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.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2014

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 and 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.

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 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.

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 Department of Education 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.

6. DEFINED BENEFIT 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.

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website, at www.ohsers.org, under *Employer/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent 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 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2014

The Academy's contributions to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$87,396, \$71,488, and \$79,272, respectively; which were equal to the amount required for each year. Contributions are paid and reported by the Management Co. (see Note 5).

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Middletown Preparatory and Fitness Academy
Butler County
Notes to the Basic Financial Statements
June 30, 2014

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

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

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

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

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

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

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

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who

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die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

For the fiscal year ended June 30, 2014, plan members were required to contribute 11% of their annual covered salaries, for the fiscal years ended June 30, 2013, and 2012, plan members were required to contribute 10% of their annual covered salaries. For these fiscal years, the Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$150,402, \$126,858, and \$129,138, respectively; 100 percent has been contributed for fiscal years 2014, 2013, and 2012. Contributions are paid and reported by the Management Co. (see Note 5).

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

7. POSTEMPLOMENT 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.

A. School Employees Retirement System

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

Medicare Part B Plan

The Medicare Part 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 monthly premium for calendar

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year 2014 was \$104.90 for most participants, but could be as high as \$335.70 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 2014, the actuarially required allocation was .76%. The Academy's contributions for the years ended June 30, 2014, 2013 and 2012 were \$4,744, \$3,779, and \$4,303, respectively, which equaled the required contributions each year.

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 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, 2014, the health care allocation is 0.14%. 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. State law provides 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 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$874, \$817, and \$897, respectively. Contributions are paid and reported by the Management Co. (See Note 5).

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.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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B. State Teachers Retirement System (STRS Ohio)

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

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

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

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013, and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled were \$10,739, \$9,061, and \$9224, respectively. The full amount has been contributed for fiscal years 2014, 2013, and 2012.

8. PURCHASED SERVICES

For the period ended June 30, 2014, purchased service expenses represent payments for management services rendered by Performance Academies (see note 5) and STRS and SERS payments made by the Academy on behalf of Performance Academies.

Purchased Services Agreement	\$2,169,912
SERS and STRS Payments	<u>\$ 237,798</u>
Total Purchased Services	<u>\$2,407,710</u>

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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, 2014.

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 Academy had a \$5,031.89 adjustment to State funding for the fiscal year ended June 30, 2014 as a result of the review.

10. METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION

The Academy is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public 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.

Middletown Preparatory and Fitness Academy
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11. MANAGEMENT COMPANY EXPENSES

As per the agreement with Performance Academies (see note 5), 98% of the school's revenue is paid to Performance Academies as a management fee. The related 'purchased services' expense totaled \$2,407,710 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 direct expenses on behalf of the school:

Direct Expenses:		
Salaries & Wages	\$	973,002
Employees' Benefits		245,232
Professional and Technical Services		198,723
Property Services		423,174
Sponsorship Fees		39,877
Travel		24,326
Communications		84,172
Other Purchased Services		192,564
Books, Periodicals and Films		125,126
Other Supplies		37,575
Other Expenses		<u>44,640</u>
Total Expenses	\$	<u>2,388,411</u>

The Board approved a resolution that allowed Performance Academies to spend the 2% amount for the benefit of the Academy.



Balestra, Harr & Scherer, CPAs, Inc.

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

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

To the Board:

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 Middletown Preparatory and Fitness Academy, Butler County, Ohio (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the 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 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 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.

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, 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 Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 19, 2014



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
FEBRUARY 17, 2015**