



Dave Yost • Auditor of State

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Trotwood Preparatory and Fitness Academy
Montgomery County
3100 Shiloh Springs Road
Trotwood, Ohio 45426

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Trotwood Preparatory and Fitness Academy, Montgomery County, Ohio (the Academy), as of and for the year ended June 30, 2015, 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 Trotwood Preparatory and Fitness Academy, Montgomery County, Ohio, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 4 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

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* and schedules of net pension liabilities and pension contributions 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.

Supplementary and Other Information

Our audit was conducted to opine on the Academy's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

October 14, 2016

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**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The discussion and analysis of the Trotwood 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, 2015. 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 was (\$4,201,601) at June 30, 2015.
- Operating Revenues were \$2,823,092, operating expenses were \$3,294,954 and non-operating revenues and expenses were \$571,978 for FY15.
- Total net position increased \$100,116.

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 2015?" 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.

Table 1 provides a summary of the Academy's net position for fiscal years 2015 and 2014.

Assets:	<u>FY15</u>	<u>(Restated) FY14</u>
Current Assets	\$6,136	\$39,256
Long Term Assets	883,477	
Total Assets	<u>889,613</u>	<u>39,256</u>
Deferred outflows of resources	272,178	223,204
Liabilities:		
Current Liabilities	53,242	39,156
Non-current Liabilities	4,619,749	4,525,021
Total Liabilities	<u>4,672,991</u>	<u>4,564,177</u>
Deferred inflows of resources	690,401	
Net Position		
Unrestricted (deficit)	(4,225,079)	(4,301,717)
Net Investment in Capital Assets	23,478	
Total net position (deficit)	<u>(\$4,201,601)</u>	<u>(\$4,301,717)</u>

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Total assets increased \$850,357. Total current liabilities increased \$14,086. Net position increased \$100,116 due to the acquisition of the school's building.

During fiscal year 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$100 to a deficit balance of \$4,301,717.

Table 2 shows the changes in net position for fiscal year 2015, as well as a listing of revenues and expenses.

**(Table 2)
Change in Net Position**

Operating Revenues:	FY15	FY14 (Restated)
Unrestricted State Payments	\$2,816,877	\$2,775,543
Sales	6,215	16,115
Total Operating Revenues	2,823,092	2,791,658
Operating Expenses:		
Purchased Services – Management Fees	3,179,079	3,065,012
Depreciation Expense	30,465	
Other Operating Expenses	85,410	267,312
Total Operating Expenses	3,294,954	3,332,324
Operating Gain (Loss)	(471,862)	(540,666)
Non-Operating Revenues (Expenses):		
Federal Grants	634,418	519,250
State Grants	21,866	21,416
Principal Expense	(48,177)	
Interest Expense	(36,129)	
Total Non-Operating Revenues (Expenses)	571,978	540,666
Change in Net Position	100,116	
Net Position at Beginning of Year	(4,301,717)	100
Net Position at End of Year	<u>(4,201,601)</u>	<u>(\$4,301,717)</u>

Net position increased \$100,116. There was an increase in operating revenues of \$31,434, and a decrease in expenses of \$37,370. Non-operating revenues increased \$31,312. The increase in net position was primarily due to the Academy's acquisition of its school building.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$223,204 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$159,674.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$3,294,954
Pension expense under GASB 68	(159,674)
2015 contractually required contributions	<u>236,212</u>
Adjusted 2015 program expenses	3,371,492
Total 2014 program expenses under GASB 27	<u>3,332,324</u>
Increase in program expenses not related to pension	<u>\$39,168</u>

Capital Assets

As of June 30, 2015, the Academy had net capital assets of \$883,477 invested in facilities. This figure is an increase of \$883,477 compared to the amount presented for FY 2014.

Long-Term Debt Activity

At the end of fiscal year 2015, the Academy had \$859,999 in long-term obligations outstanding due to a mortgage on the school building. For more detailed information on debt see Note 8 in the Notes to the Basic Financial Statements.

Current Financial Issues

The Trotwood Preparatory and Fitness Academy was formed in 2002 through a charter with the Ohio Council of Community Schools. During the 2002-2003 school year there were approximately 95 students enrolled. The following year, this increased to approximately 175. In fiscal year 2005, this number increased to approximately 250 and in fiscal year 2006, to 278. In fiscal year 2007, FTE was approximately 290 and it increased to 300 in fiscal year 2008. In fiscal year 2009 and fiscal year 2010, enrollment continued at about 300. Enrollment increased to 310 in fiscal year 2011 and again to 330 in fiscal year 2012. In fiscal year 2013 enrollment dropped slightly to 323 but then rose again to 346 in FY14. In FY15 enrollment grew to 349. The Academy receives its finances mostly from state aid. Per pupil base aid for fiscal year 2015 was \$5,800.

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, 2 Easton Oval Suite 525 Columbus OH 43219 or email Ttaylor@performanceacademies.com.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2015**

Assets:

Current Assets:

Equity in Cash and Cash Equivalents	\$100
Accounts Receivable	6,036
Total Current Assets	6,136

Non-Current Assets:

Buildings and Improvements	913,942
Less: Accumulated Depreciation	(30,465)
Total Non-Current Assets	883,477

Total Assets	889,613
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Deferred Outflows of Resources:

Pensions - STRS	215,492
Pensions - SERS	56,686
Total deferred outflows of resources	272,178

Liabilities:

Current Liabilities:

Accounts Payable	5,936
Current Portion of Long Term Note	47,306
Total Current Liabilities	53,242

Long-Term Liabilities:

Net Pension Liability	3,807,056
Long Term Note - Net of Current Portion	812,693
Total Non-Current Liabilities	4,619,749

Total Liabilities	4,672,991
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Deferred Inflows of Resources:

Pension - STRS	590,888
Pension - SERS	99,513
Total deferred inflows of resources	690,401

Net Position:

Unrestricted (deficit)	(4,225,079)
Net Investment in Capital Assets	23,478
Total Net Position (deficit)	(\$4,201,601)

See accompanying notes to the basic financial statements.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Operating Revenues:	
Unrestricted State Payments	\$2,816,877
Sales	6,215
Total Operating Revenues	<u>2,823,092</u>
Operating Expenses:	
Purchased Services - Management Fees	3,179,079
Depreciation Expense	30,465
Other Operating Expenses	85,410
Total Operating Expenses	<u>3,294,954</u>
Operating Gain (Loss)	(471,862)
Non-Operating Revenues (Expenses):	
Federal Grants	634,418
State Grants	21,866
Interest Expense	(36,129)
Principal Expense	(48,177)
Total Non-Operating Revenues (Expenses)	<u>571,978</u>
Change in Net Position	100,116
Net Position at Beginning of Year, Restated	<u>(4,301,717)</u>
Net Position at End of Year	<u><u>(\$4,201,601)</u></u>

See accompanying notes to the basic financial statements.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities

Cash Received from Sales	\$6,215
Cash Received from State of Ohio	2,816,877
Cash Payments to Suppliers for Goods and Services	<u>(3,341,127)</u>
Net Cash Used for Operating Activities	<u>(518,035)</u>

Cash Flows From Non-Capital Financing Activities:

Cash Received from Federal Grants	634,418
Cash Received from State Grants	<u>21,866</u>
Net Cash Provided by Non-Capital Financing Activities	<u>656,284</u>

Cash Flows From Capital and related Financing Activities:

Cash Payments for Capital Acquisitions	(53,943)
Cash Payments for Principal Retirement on Loan	(48,177)
Cash Payments for Interest and Fiscal Charges	<u>(36,129)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(138,249)</u>

Net Change in Cash and Cash Equivalents

Cash and Cash Equivalents at Beginning of Year 100

Cash and Cash Equivalents at End of Year \$100

Reconciliation of Operating Income (Loss) to Net Cash

Provided by (Used for) Operating Activities:

Operating Income (Loss) (\$471,862)

Adjustments:

Depreciation	30,465
(Increase) Decrease in Deferred Outflows - Net Pension Liability	(48,974)
Increase (Decrease) in Deferred Inflows - Net Pension Liability	690,401
Increase (Decrease) in Net Pension Liability	(717,965)
(Increase) Decrease in Accounts Receivable	33,120
Increase (Decrease) in Accounts Payable	<u>(33,220)</u>

Net Cash Provided by (Used for) Operating Activities (\$518,035)

Noncash Capital and Related Financing Activities:

On July 1, 2014 the Academy assumed ownership of their educational facility and took responsibility for the related debt. The Academy recognized noncash contributions of capital in the amount of \$859,999 and noncash items related to debt in the amount of \$5,766.

See accompanying notes to the basic financial statements.

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**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

1. DESCRIPTION OF THE ENTITY

The Trotwood 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 Department of Education (the Sponsor) for a period of five years commencing in July 2006. 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 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 facility is staffed with teaching personnel employed by Performance Academies. The Board also operates the following schools:

Middletown Preparatory and Fitness Academy	Middletown, Ohio
Mt. Healthy Preparatory and Fitness Academy	Mt. Healthy, Ohio
Springfield Preparatory and Fitness Academy	Springfield, Ohio

Also the Academy is associated with the Metropolitan Dayton Educational Cooperative Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. See Note 11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its proprietary activities provided they do no conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net 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.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Revenues, Expenses and 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.

E. Cash Deposits

All cash received by the Academy is maintained in a demand deposit account.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Net position

Net position represents the difference between all other elements in a statement of financial position. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

G. Concentration of Business and Current Risk

As of June 30, 2015, 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.

H. Deposits

The Academy maintains its cash balance in a demand deposit account in two financial institutions located in Columbus, Ohio. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At June 30, 2015 the Academy's cash balance was \$100, so 100 percent was covered by FDIC. The Academy had no investments at June 30, 2015, or during the fiscal year.

I. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until then. For the Academy, deferred outflows of resources have been reported for the following two items related to the Academy's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the Academy's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until that time. For the Academy, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Academy's net pension liability.

J. Capital Assets and Depreciation

Buildings are stated at cost and are depreciated on the straight-line method over their estimated useful lives. Buildings are recorded at historical value on the date of conveyance. The Academy maintains a capitalization threshold of \$1,500. Upon sale or disposition of a building, the cost and related depreciation are removed from the accounts and any gain or loss is recognized.

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

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets	Years
Buildings and Improvements	30

K. 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.

L. 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 service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

N. Deposits

Monies held by the Academy are classified by State statute into three categories. Active monies are public deposits determined to be necessary to meet current demands upon the Academy treasury. Active monies must be maintained either as cash in the Academy Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than five years from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Academy may be deposited or invested in the following securities:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio Local Governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

O. Accrued Liabilities and Intergovernmental Revenues

1. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported on the statement of net position.

2. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. The amount of these grants is directly related to the number of students enrolled in the Academy. 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 foundation funding is calculate. The remaining grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

3. CAPITAL ASSETS

A Summary of the Academy's Capital Assets at June 30, 2015 is as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Buildings		\$913,942		\$913,942
Accumulated Depreciation		\$30,465		\$30,465
Book Value		<u>\$883,477</u>		<u>\$883,477</u>

4. ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the Academy has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68".

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the Academy's pension plan disclosures, as presented in Note 6, and added required supplementary information which is presented after the notes to the financial statements.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and non-employer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

Net position as previously reported	\$100
Deferred outflows – payments subsequent to measurement date	223,204
Net pension liability	<u>(4,525,021)</u>
Restated net position at July 1, 2014	<u><u>(\$4,301,717)</u></u>

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

5. AGREEMENT WITH PERFORMANCE ACADEMIES, INC.

On July 1, 2014, 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:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

5. AGREEMENT WITH PERFORMANCE ACADEMIES, INC. (Continued)

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.

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 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.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

5. AGREEMENT WITH PERFORMANCE ACADEMIES, INC. (Continued)

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 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.

A. Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

The net pension liability represents the Academy’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Academy’s obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension obligation payable* on both the accrual and modified accrual bases of accounting.

B. Plan Description – School Employees Retirement System (SERS)

Plan Description –Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – 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 by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$51,468 for fiscal year 2015.

C. Plan Description – State Teachers Retirement System (STRS)

Plan Description –Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$184,744 for fiscal year 2015.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$613,133	\$3,193,923	\$3,807,056
Proportion of the net pension liability	0.01211500%	0.01313104%	
Pension expense	\$35,780	\$123,894	\$159,674

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources:			
Differences between expected and actual experience	\$5,218	\$30,748	\$35,966
Academy contributions subsequent to the measurement date	51,468	184,744	236,212
Total deferred outflows of resources	<u>\$56,686</u>	<u>\$215,492</u>	<u>\$272,178</u>
Deferred inflows of resources:			
Net difference between projected and actual earnings on pension plan investments	<u>\$99,513</u>	<u>\$590,888</u>	<u>\$690,401</u>

\$236,212 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$23,573)	(\$140,035)	(\$163,608)
2017	(23,573)	(140,035)	(163,608)
2018	(23,573)	(140,035)	(163,608)
2019	(23,576)	(140,035)	(163,611)
Total	<u>(\$94,295)</u>	<u>(\$560,140)</u>	<u>(\$654,435)</u>

E. Actuarial Assumptions – SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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6. DEFINED BENEFIT PENSION PLANS (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate – The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the Academy’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy’s proportionate share of the net pension liability	\$874,759	\$613,133	\$393,083

F. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the Academy’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the Academy’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy’s proportionate share of the net pension liability	\$4,572,450	\$3,193,923	\$2,028,154

7. POST EMPLOYMENT 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

Health Care Plan Description – The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS’ website at www.ohsers.org under Employers/Audit Resources.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

7. POST EMPLOYMENT BENEFITS (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Academy's surcharge obligation was \$0.

The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$3,202, \$788, and \$858, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

B. State Teachers Retirement System

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$13,465, and \$13,108 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

8. LONG-TERM OBLIGATIONS

The Academy's long-term obligations during the year consist of the following:

	Restated Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due in One Year
Net pension liability:					
STRS	\$3,804,581		(\$610,658)	\$3,193,923	
SERS	720,440		(107,307)	613,133	
Total net pension liability	<u>\$4,525,021</u>	<u>\$0</u>	<u>(\$717,965)</u>	<u>\$3,807,056</u>	<u>\$0</u>
	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due in One Year
Note Payable		\$913,942	(\$53,943)	\$859,999	\$47,306
Total Long-Term Debt	<u>\$0</u>	<u>\$913,942</u>	<u>(\$53,943)</u>	<u>\$859,999</u>	<u>\$47,306</u>

On July 1, 2014, the Academy assumed ownership of their education facilities and took responsibility for the related debt. Note obligation at the time of conveyance was \$913,942 at an interest rate of 5.8%. Principal paid through June 30, 2015 was \$53,943. Principal and interest is due the first day of the month.

The following is a summary of the Academy's future annual requirements to meet notes payable:

School Financing Notes			
Fiscal Year	Principal	Interest	Total
2016	\$47,306	\$41,367	\$88,673
2017	60,217	46,190	106,407
2018	63,856	42,551	106,407
2019	67,713	38,694	106,407
2020	71,711	34,696	106,407
2021	49,196	106,982	656,178
Total	<u>\$859,999</u>	<u>\$310,480</u>	<u>\$1,170,479</u>

Net Pension Liability: See Note 6 for information on the Academy's net pension liability.

9. PURCHASED SERVICES

For the period ended June 30, 2015, 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	\$2,909,247
SERS and STRS Payments	<u>\$ 269,832</u>
Total Purchased Services	<u>\$3,179,079</u>

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

10. 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, 2015.

B. State Foundation Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

11. 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.

12. 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, Inc., Performance Academies, Inc. 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.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

13. 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 \$2,964,195 for the year ended June 30, 2015 including \$269,832 in STRS and SERS payments made by the Academy on behalf of Performance Academies.

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

Direct Expenses:	
Salaries & Wages	\$1,317,719
Employees' Benefits	364,938
Professional and Technical Services	50,896
Property Services	373,386
Sponsorship Fees	55,724
Travel	18,040
Communications	12,349
Other Purchased Services	230,863
Books, Periodicals and Films	38,360
Other Supplies	48,425
Other Direct Expenses	
Indirect Expenses	453,495
Total Expenses	<u><u>\$2,964,195</u></u>

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**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.01211500%	0.01211500%
Academy's proportionate share of the net pension liability	\$613,133	\$720,440
Academy's covered-employee payroll	\$352,035	\$536,055
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	134.40%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.01313104%	0.01313104%
Academy's proportionate share of the net pension liability	\$3,193,923	\$3,804,581
Academy's covered-employee payroll	\$1,341,631	\$1,310,785
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	290.25%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$51,468	\$48,792	\$74,190	\$68,664
Contributions in relation to the contractually required contribution	<u>(51,468)</u>	<u>(48,792)</u>	<u>(74,190)</u>	<u>(68,664)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy's covered-employee payroll	\$390,501	\$352,035	\$536,055	\$510,513
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

2011	2010	2009	2008	2007	2006
\$55,455	\$25,986	\$146,358	\$88,705	\$102,333	\$52,887
<u>(55,455)</u>	<u>(25,986)</u>	<u>(146,358)</u>	<u>(88,705)</u>	<u>(102,333)</u>	<u>(52,887)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$441,169	\$191,920	\$1,487,378	\$903,310	\$958,174	\$499,877
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$184,744	\$174,412	\$170,402	\$164,825
Contributions in relation to the contractually required contribution	<u>(184,744)</u>	<u>(174,412)</u>	<u>(170,402)</u>	<u>(164,825)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy's covered-employee payroll	\$1,319,600	\$1,341,631	\$1,310,785	\$1,267,885
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$134,227	\$132,957	\$149,556	\$123,776	\$112,488	\$77,006
<u>(134,227)</u>	<u>(132,957)</u>	<u>(149,556)</u>	<u>(123,776)</u>	<u>(112,488)</u>	<u>(77,006)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,032,515	\$1,022,746	\$1,150,431	\$952,123	\$865,292	\$592,354
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program	2015	10.553	153,760	153,760
National School Lunch Program	2015	10.555	156,678	156,678
Total Child Nutrition Cluster			210,438	210,438
Fresh Fruit and Vegetable Program	2015	10.582	20,231	20,231
Total U.S. Department of Agriculture			230,669	230,669
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States	2015	84.027	79,335	79,335
Special Education - Preschool Grants	2015	84.173		934
Total Special Education Cluster			79,335	80,269
Title I Grants to Local Educational Agencies	2015	84.010	320,800	320,800
Improving Teacher Quality State Grants	2015	84.367	2,680	2,680
Total U.S. Department of Education			402,815	403,749
Total Federal Assistance			\$633,484	\$634,418

The accompanying notes to this schedule are an integral part of this schedule.

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Trotwood Preparatory and Fitness Academy's (the Academy's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Trotwood Preparatory and Fitness Academy
Montgomery County
3100 Shiloh Springs Road
Trotwood, Ohio 45426

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 Trotwood Preparatory and Fitness Academy, Montgomery County, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 14, 2016, wherein we noted the Academy adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

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*.

Academy's Response to Finding

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

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.



Dave Yost
Auditor of State
Columbus, Ohio

October 14, 2016



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Trotwood Preparatory and Fitness Academy
Montgomery County
3100 Shiloh Springs Road
Trotwood, Ohio 45426

To the Board of Directors:

Report on Compliance for the Major Federal Program

We have audited the Trotwood Preparatory and Fitness Academy's (the Academy) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Trotwood Preparatory and Fitness Academy's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Academy's major federal program.

Management's Responsibility

The Academy's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Academy's compliance for the Academy's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Academy's major program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on the Major Federal Program

In our opinion, the Trotwood Preparatory and Fitness Academy complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Academy's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

October 14, 2016

**TROTWOOD PREPARATORY AND FITNESS ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: School Breakfast Program (CFDA 10.553) National School Lunch Program (CFDA 10.555)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2015-001

Material Weakness – Financial Statement Misstatements

The Academy prepared its annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The Academy's fiscal year 2015 financial statements contained the following errors that required adjustment to the financial statements:

- On the Statement of Cash Flows, in the Cash Flows from Operating Activities section, Cash Received from the State of Ohio was overstated by \$21,866 due to the inclusion of non-operating grants from the casino allocation and State lunch and breakfast reimbursements. This error also resulted in Cash Flows from Noncapital Financing Activities to be understated by the same amount.
- On the Statement of Cash Flows, in the Cash Flows from Operating Activities section, Cash Payments to Supplies for Goods and Services was overstated by \$138,249 due to the inclusion of cash payments for capital acquisitions, loan principal, and interest. This error also resulted in Cash Flows from Capital Financing Activities to be understated by the same amount.

Additionally, Governmental Accounting Standards Board Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, Paragraph 105 states, in part, that “the direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) should be used. The Academy did not present a reconciliation of operating cash flows to operating income on the Statement of Cash Flows. The following reconciliation was added to the Statement of Cash Flows:

Operating Income (Loss)	(471,862)
Adjustments:	
Depreciation	30,465
(Increase) Decrease in Deferred Outflows – Net Pension Liability	(48,974)
Increase (Decrease) in Deferred Inflows – Net Pension Liability	690,401
Increase (Decrease) in Net Pension Liability	(717,965)
(Increase) Decrease in Accounts Receivable	33,120
Increase (Decrease) in Accounts Payable	<u>(33,220)</u>
Net Cash Provided by (Used for) Operating Activities	(518,035)

Failure to review the Academy's annual financial report could result in materially misstated financial statements and misleading financial information.

The Academy should establish and implement procedures to review its annual GAAP financial statements to verify that the financial statements are presented in accordance with applicable accounting guidelines and principles.

Officials' Response:

Performance Academies has contracted with Julian and Grube to review and finalize GAAP statements for subsequent years. Management is confident that this will ensure complete accuracy of future statements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Dave Yost • Auditor of State

TROTWOOD PREPARATORY AND FITNESS ACADEMY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2016**