



**Auditor of State
Betty Montgomery**

PHOENIX ACADEMY
LUCAS COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Academy
Lucas County
2238 Jefferson Avenue
Toledo, Ohio 43604-7120

To the Governing Board:

We have audited the accompanying basic financial statements of the Phoenix Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

October 4, 2006

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Phoenix Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. 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

- Total net assets were \$1,744,971.
- Total assets were \$2,598,606. Cash totaled \$2,064,404.
- Total liabilities were \$853,635. Amounts payable to Toledo Public Schools amounted to \$646,058 while intergovernmental payable amounted to \$202,523.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services. Unrestricted state aid and state and federal grants finance most of these activities.

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)

Net Assets

	2005	2004 (Restated)
Assets		
Current Assets	\$ 2,598,606	\$ 670,567
<i>Total Assets</i>	2,598,606	670,567
Liabilities		
Current Liabilities	853,635	284,743
<i>Total Liabilities</i>	853,635	284,743
Net Assets		
Unrestricted	1,744,971	385,824
<i>Total Net Assets</i>	\$ 1,744,971	\$ 385,824

Assets totaled \$2,598,606. Cash and cash equivalents amounted to \$2,064,404. This represents an increase of \$1,535,675 or 290.4% over the prior fiscal year, and was primarily due to the significant increase in enrollment, which increased per pupil funding from the state and increase liabilities primarily due to Toledo Public Schools. Intergovernmental Receivables amounted to \$158,245, which is the amount of overpayment to Toledo Public Schools and for School Employees Retirement System taken out monthly from the Academy's community school payment from the State. Prepaid assets were \$350,165. The most significant liabilities were payable to Toledo Public Schools in the amount of \$646,058 and \$202,523 to the State of Ohio.

Liabilities totaled \$853,635, which represents an increase of \$568,892 or 199.79% over the prior fiscal year, and is primarily due to the timing of invoicing from Toledo Public Schools for reimbursement of services.

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.

(Table 2)

Change in Net Assets

	2005	2004 (Restated)
Operating Revenues:		
Foundation Payments	\$ 3,416,501	\$ 1,847,099
Disadvantaged Pupil Impact Aid	40,727	37,449
Special Education	5,658	
Classroom Fees	74,437	27,090
Extracurricular Activities	258	1,326
Other	250	

(Continued)

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

(Table 2) (Continued)
Change in Net Assets

	2005	2004 (Restated)
Non-Operating Revenues:		
State Grants	10,925	55,000
Interest	32,290	3,401
Other	42,549	
<i>Total Revenues</i>	3,623,595	1,971,365
Operating Expenses		
Salaries	11,125	10,708
Fringe Benefits	2,113	1,840
Purchased Services	2,178,640	1,558,844
Materials and Supplies	56,932	4,985
Other Expenses	15,638	9,164
<i>Total Expenses</i>	2,264,448	1,585,541
<i>Increase in Net Assets</i>	\$ 1,359,147	\$ 385,824

During the 2004-2005 school year, there were approximately 587 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2005 amounted to \$5,169 per student.

The Academy's business-type activities consist of enterprise activity. Community Schools receive no support from tax revenues.

Revenues totaled \$3,623,595, which represents an increase of \$1,652,230 or 83.8% over prior fiscal year. This was primarily due to the increase in enrollment and subsequent state funding.

Operating expenses totaled \$2,264,448, which represents an increase of \$678,907 or 42.8% over prior fiscal year. The increase is primarily due to additional staffing and services based on enrollment. Also, sponsorship and fiscal management fees increased based on state funding per contract with Toledo Public Schools. Most expenses are purchased services. Per contract, the Academy remits most of its revenue to Toledo Public Schools, which incurs costs on behalf of the Academy to provide instruction and other costs. See Note 11 for more detail.

Capital Assets

The Academy's asset capitalization minimum is \$5,000. The Academy had no assets above the capitalization threshold.

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Current Financial Issues

The Academy was formed in 2003 sponsored by Toledo Public Schools. An idea to service students at risk of dropping out of school was turned into a community school by petitioning the Ohio Department of Education for a charter. Through the efforts of many individuals, the charter was issued. The Academy was awarded a \$50,000 startup grant from the State of Ohio in its first year of operations 2003-2004. The Academy applied for, but did not receive a Federal startup grant totaling \$300,000. The Academy officially opened on September 1, 2003, and students began reporting September 7, 2003. The building was subleased from Toledo Public Schools, who leased it from Mercy Hospital. The governing board of the Academy is composed of five members, each appointed. The Academy receives its finances primarily from state aide.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Rose Butler, Treasurer at Phoenix Academy, 2238 Jefferson Avenue, Toledo, Ohio 43604-7120.

**PHOENIX ACADEMY
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets

Current Assets:

Cash and Cash Equivalents	\$ 2,064,404
Accounts Receivable	25,792
Intergovernmental Receivables	158,245
Prepaid Items	350,165
<i>Total Current Assets</i>	<u>2,598,606</u>

Liabilities

Current Liabilities:

Accounts Payable	3,955
Accrued Wages and Benefits	1,099
Amounts Payable to Toledo Public Schools	646,058
Intergovernmental Payable	202,523
<i>Total Current Liabilities</i>	<u>853,635</u>

Net Assets

Unrestricted	<u>1,744,971</u>
<i>Total Net Assets</i>	<u>\$ 1,744,971</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PHOENIX ACADEMY
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating Revenues	
Foundation Payments	\$ 3,416,501
Disadvantaged Pupil Impact Aid	40,727
Special Education	5,658
Charges for Services - Outreach Program	74,437
Extracurricular	258
Other Operating Revenues	<u>250</u>
<i>Total Operating Revenues</i>	<u>3,537,831</u>
Operating Expenses	
Salaries	11,125
Fringe Benefits	2,113
Purchased Services	2,178,640
Materials and Supplies	56,932
Other	<u>15,638</u>
<i>Total Operating Expenses</i>	<u>2,264,448</u>
<i>Operating Income</i>	<u>1,273,383</u>
Non-Operating Revenues	
State Grants	10,925
Interest	32,290
Other Revenue	<u>42,549</u>
<i>Total Non-Operating Revenues</i>	<u>85,764</u>
<i>Change in Net Assets</i>	1,359,147
<i>Net Assets Beginning of Year (Restated)</i>	<u>385,824</u>
<i>Net Assets End of Year</i>	<u><u>\$ 1,744,971</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PHOENIX ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Increase/(Decrease) in Cash and Cash Equivalents:

<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation Payments	\$ 3,774,618
Cash Received from Extracurricular Activities	258
Cash Received from Charges for Services - Outreach Program	74,437
Cash Received from Other Operating Sources	250
Cash Payments to Suppliers for Goods and Services	(59,947)
Cash Payments to Employees for Services	(10,875)
Cash Payments for Employee Benefits	(10,268)
Cash Payments for Purchased Services	(1,826,421)
Cash Payments to Management Company	(476,503)
Cash Payments to Others	<u>(15,638)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>1,449,911</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Other Non-Operating Revenues	42,549
Operating Grants - State	<u>10,925</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>53,474</u>
<u>Cash Flows from Investing Activities:</u>	
Interest	<u>32,290</u>
<i>Net Cash Provided by Investing Activities</i>	<u>32,290</u>
<i>Net Increase in Cash and Cash Equivalents</i>	1,535,675
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>528,729</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 2,064,404</u></u>

(Continued)

**PHOENIX ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities:**

Operating Income	\$ 1,273,383
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**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities**

Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(9,024)
(Increase) in Intergovernmental Receivable	(49,036)
(Increase) in Prepaids	(334,304)
Increase in Accounts Payable	3,619
Increase in Accrued Wages and Benefits	137
Increase in Amounts Payable to Toledo Public Schools	362,613
Increase in Intergovernmental Payable	202,523

<i>Total Adjustments</i>	<u>176,528</u>
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<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 1,449,911</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Phoenix Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission 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 qualifies as an exempt organization under Section 501c(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

The Academy was approved for operation under contract with Toledo Public Schools (the Sponsor) for a period of five years commencing September 1, 2003. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Assistant Treasurer or Treasurer of the Sponsor shall serve as the Chief Financial Officer of the Academy (see note 13).

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional facility staffed by 7 non-certified and 9 certificated full time teaching personnel who provide services to 587 students.

NOTE 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 not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 other 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, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's Treasurer. All cash received by the Treasurer is maintained in separate bank accounts in the Academy's name.

For the purpose of the statement of cash flows and for presentation on the Statement of Net Assets, investments with original maturities of three months or less, at the time they are purchased by the Academy, are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During fiscal year 2005, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. Intergovernmental Revenues

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

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

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

The Academy also participates in various programs through the Ohio Department of Education. These include the One Net, Ohio Schoolnet, and EMIS grants. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. 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. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

I. Estimates

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

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. There were no restricted net assets.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 – CORRECTION OF AN ERROR AND RESTATEMENT OF NET ASSETS

In fiscal year 2005, the Academy had determined that Accounts Payable was overstated due to a renegotiated building lease with Toledo City School District. The effect of this restatement on the Net Assets of the Governmental Activities as of July 1, 2004, is as follows:

	Total Governmental Activities
Governmental Activities Net Assets at June 30, 2004	<u>\$ 340,892</u>
Accounts Payable	44,932
Restated Governmental Activities Net Assets at June 30, 2004	<u>\$ 385,824</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2005, the Academy's bank balance was \$1,077,453. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, \$977,453 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy's investments total \$1,005,336 (fair value) which is maintained in a STAR Ohio account. At June 30, 2005, STAR Ohio received the Standard & Poor's highest credit rating of AAA.

NOTE 5 – RECEIVABLES

Receivables at June 30, 2005, consisted of accounts and intergovernmental receivables. All receivables are considered collectible in full and will be received within one year. At June 30, 2005, the Academy had an accounts receivable of \$25,792 due from Polly Fox and Brigadoon Academies and an intergovernmental receivable of \$158,245, representing an overpayment to Toledo Public Schools and the State Employees Retirement System during the year.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Academy obtained insurance effective August 30, 2004, to August 30, 2005, thru broker Hylant Insurance. Coverages are as follows:

General Liability:	
Per occurrence	\$ 1,000,000
Annual Aggregate	3,000,000
Educators Professional Liability:	
Per occurrence	1,000,000
Aggregate	1,000,000
Business Personal Property (\$1,000 deductible)	200,000
Excess Liability:	
Limits of Liability	4,000,000

There have been no claims filed.

B. Workers' Compensation

The Academy does not pay directly into the State Workers' Compensation System. All employees are contracted through Toledo Public Schools, which pays the Workers' Compensation System based on their payroll. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling 1-800-878-5853. It is also posted on the SERS website, www.ohsers.org, under Forms and Publications.

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005 and 2004 were \$1,176 and \$898, respectively; 100 percent has been contributed for fiscal years 2005 and 2004. \$8,042 represents the overpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental receivable.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits 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 System based on authority granted by State statute. SERS system is on a pay-as-you-go basis.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$382.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,000 participants currently receiving health care benefits.

NOTE 9 - EMPLOYEE BENEFITS

Most employees of the Academy are employed by Toledo Public Schools. Policies and procedures are approved by the Toledo Public Schools' Board of Education and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of staff purchased from Toledo Public Schools by contract.

NOTE 10 – RELATED PARTY TRANSACTIONS

A board member, Earl Apgar, was hired by Toledo Public Schools (TPS) to be the principal of the Toledo Education Center (collectively – Brigadoon, Phoenix, and Polly Fox Community Schools). Mr. Apgar resigned from the Academy's Board in January 2005. Total payments to Mr. Apgar for fiscal year 2005 included \$750 for Board member services and \$1,445 in reimbursements.

The following board members were the same for Brigadoon, Phoenix, and Polly Fox Academies that are sponsored by TPS: Joan Durgin, Adrienne Noel, Joan Kuchcinski, and Joan Reasonover. Each of the following board members received pay from the Academy: Ms. Durgin \$1,250; Ms. Noel \$1,250; Ms. Kuchcinski \$1,250; and Ms. Reasonover \$1,250. In addition, Ms. Noel and Ms. Kuchcinski received reimbursements of \$188 and \$294, respectively.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 – RELATED PARTY TRANSACTIONS – (Continued)

The Academy's Fiscal Officer, James Larson-Shidler, received pay from the Academy of \$5,000 and reimbursements of \$195. He is also the Assistant to the Treasurer of TPS, the Sponsor/Management Company of the Academy (see note 13).

Joan Durgin, Adrienne Noel, Joan Kuchcinski, and Joan Reasonover are still employed by TPS.

NOTE 11 – MANAGEMENT AGREEMENT

The Academy entered into a contract, effective July 1, 2003, through June 30, 2004, renewable each year up to five years, with Toledo Public Schools (TPS) for educational and financial management services. The Academy renewed the prior contract for the 2004-2005 school year. Total expenses to TPS were \$1,765,513 for the fiscal year ended June 30, 2005. In exchange for its services, TPS received \$1,289,011 to manage the Academy in addition to a management fee equal to 10 percent of revenue (\$366,540) and a sponsorship fee equal to 3 percent of revenue (\$109,962). In addition, the Academy pays TPS an annual fee in the subsequent year totaling 100 percent of its cash balance above \$100,000 of all funds paid to the Academy by the State of Ohio. Terms of contract require TPS to provide the following:

- A. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy;
- B. Implementation and administration of the Educational Program, including the selection of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;
- C. All personnel functions, including professional development for the Academy principal, all instructional personnel, and support staff;
- D. All aspects of the business administration of the Academy;
- E. Transportation and food service for the Academy;
- F. A projected annual budget prior to each school year;
- G. Detailed statements of all revenues received, from whatever source, and detailed statements of all expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request;
- H. Annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy;
- I. Reports on Academy operations, finances, and students' performances, upon request; and
- J. Any other function necessary or expedient for the administration of the Academy.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - CONTINGENCIES

A. Grants

The Academy received financial assistance from 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 is 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, 2005.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2005 student enrollment data and FTE calculations. For fiscal year 2005, the results of this review resulted in a reduction in funding of \$202,523. This amount is reflected as an Intergovernmental Payable.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

NOTE 13 – FISCAL

The sponsorship agreement states the Assistant Treasurer or Treasurer of the Toledo Public Schools shall serve as the Chief Financial Officer of the Academy. As part of this agreement, the Academy shall compensate the Assistant Treasurer \$5,000 annually per Academy. The amount paid to the Chief Financial Officer for fiscal year 2005 totaled \$5,000, which included \$240 accrued from fiscal year 2004. An accrual of \$208 was recorded for the year ended June 30, 2005.

The Assistant Treasurer or Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the Academy:

- A. Maintain custody of all funds received by the Academy;
- B. Maintain all accounts of the Academy;

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 – FISCAL – (Continued)

- C. Maintain all financial records of the Academy and follow procedures for receiving and expending funds which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee.
- D. Assist the Academy in meeting all financial reporting requirements established by the Auditor of State of Ohio; and
- E. Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any funds of the Sponsor or any other community school.

NOTE 14 – PURCHASED SERVICES

For the period ended June 30, 2005, purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	\$ 1,943,057
Property Services	205,963
Travel Mileage/Meeting Expense	6,783
Communications	15,030
Contracted Craft or Trade Services	10
Tuition	9,085
Other Purchased Services	(1,288)
Total Purchased Services and Fees	<u>\$ 2,178,640</u>

NOTE 15 – OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into a lease for the period August 28, 2003, to August 28, 2004, with the Sponsor to lease space to house the Academy. In August 2004, the Academy renewed the lease for an additional one-year term. In fiscal year 2005, expense under the lease for the Academy totaled \$232,091.

The Academy renegotiated its lease agreement retroactive to its inception. The renegotiated agreement applies to payments that were made in 2003-04 and 2004-05. In 2003-04, a net lease liability of \$29,071 was recorded, reflecting a prepayment of \$15,861 and a liability of \$44,932 for underpayment per original payment terms. The liability of \$44,932 was relieved in the renegotiated agreement. In August 2005, the Academy renewed the lease for an additional one-year term. As of June 30, 2005, the Academy owed \$55,136 on the current year lease agreement which appears as a liability on the financial statements.

In addition, the Academy entered into a lease for 3 years with Pearson Digital Learning for use of NovaNet software. The Academy paid \$521,075 for 3 years in advance. As of June 30, 2005, there was an outstanding prepaid in the amount of \$350,165.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16 – SUBSEQUENT EVENTS

On December 12, 2005, the Academy approved various amendments to the sponsorship and management contracts with Toledo Public Schools. One amendment changed the fiscal officer designation to allow the Academy to hire a fiscal officer directly. The Academy subsequently accepted the resignation of Jim Larson-Shidler as Treasurer, effective December 30, 2005, and hired Rose Butler as the replacement. A second amendment increased the cash carryover provision from \$100,000 to \$500,000. This cash carryover provision amount is the amount above which any cash carryover balance, as of June 30, is remitted to TPS. A third amendment was to eliminate Brigadoon Academy by combining it with Phoenix Academy, subject to Ohio Department of Education approval. The Governing Boards of Brigadoon and Phoenix Academies have approved the merger. However, as of the date of this report, the Academies are in the process of obtaining approval from their Sponsor and the Ohio Department of Education.



**Auditor of State
Betty Montgomery**

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

Phoenix Academy
Lucas County
2238 Jefferson Avenue
Toledo, Ohio 43604-7120

To the Governing Board:

We have audited the financial statements of the Phoenix Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Academy's management dated October 4, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, and the Sponsor. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 4, 2006

PHOENIX ACADEMY
LUCAS COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

Finding Number	2005-001
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Reportable Condition

Developing and Implementing an Effective Monitoring Control System

The Academy has not established a monitoring system to oversee the operational and fiscal matters of the school.

Monitoring controls comprise regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature.

Monitoring controls should assist management in making informed decisions on operational and fiscal matters for the Academy, which can include:

- Regular review and approval of bank reconciliations, as submitted by the Fiscal Officer;
- Review of key performance indicators;
- Review of revenues/expenses with independently accumulated information (budgets, past performance, etc.), as submitted by the Fiscal Officer;
- Monitoring original purchase orders and comparing encumbered amounts to actual invoices and, if needed, additional purchase orders should be issued with the appropriate approvals; and
- Ensuring an adequate segregation of duties exist.

Officials' Response

An effective monitoring control system will be established. Bank reconciliations will be provided to the Board every month for their review. Revenues and expenditures will also be reviewed monthly by the Board.

Finding Number	2005-002
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Reportable Condition

Invoices and Expenses

The Academy's Contract for Community School, Attachment 7, requires the Academy to pay the sponsor, Toledo Public Schools for services and reimbursement of necessary costs incurred to operate the Academy, on a quarterly/monthly basis. We identified the following weaknesses in paying fees and reimbursements to Toledo Public Schools:

- ✓ Invoices were made out to the Toledo Education Center, including billings for two other separate and distinct community schools housed in the same building, rather than to the Phoenix Academy.
- ✓ Invoices were not provided consistently and/or timely (quarterly/monthly). The Academy received only three invoices during FY 05, and there was a significant time lag between when services were provided and the Academy being invoiced for those services. Section 2(B) of the "Contract for Community School and Management Agreement" requires quarterly/monthly invoices.
- ✓ Voucher packets for payment to Toledo Public Schools lacked adequate, complete supporting documentation. Specifically, some voucher packets lacked initials indicating the accounting department recalculated invoices; there were no spreadsheets (or other supporting documentation) identifying various invoice allocations by school; support for the allocation of fringe benefits; support for various reconciling items; and documentation supporting sponsorship fees, management fees, and fiscal fees.

This condition could result in billing allocation errors, vendor over/under payments, and/or misappropriation of Academy assets occurring and not being detected by Academy officials when performing their assigned functions.

We recommend the Academy attempt to implement sponsor/management company payment procedures wherein (1) invoices are individual and unique, reflecting charges for services and reimbursements of costs that are obligations of the Academy; (2) invoices contain all necessary supporting documentation to facilitate adequate, accurate review and approval by the Academy's Board; and (3) invoices are presented for payment in a consistent, timely manner (monthly/quarterly).

Officials' Response

A meeting was held with the Sponsor, Toledo Public Schools, to discuss this issue. Phoenix Academy requested its sponsor provide quarterly lease invoices and separate invoices for anything billed by sponsor, with no billings addressed to the TEC (Toledo Education Center), but strictly to Phoenix Academy.

**PHOENIX ACADEMY
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Developing and Implementing an Effective Monitoring Control System	No	Partially Corrected – Repeated as finding number 2005-001
2004-002	Lacking Expenditure Controls	No	Partially Corrected – Revised and repeated as finding number 2005-002.
2004-003	Not following Consultant's Contract	Yes	Finding No Longer Valid
2004-004	No Legal Counsel	Yes	
2004-005	Payment of Expenses Not Related to Academy	No	Partially Corrected – Repeated as finding number 2005-002
2004-006	Bylaws Article Three Section 5 – No compensation for members of the Board	Yes	
2004-007	Bylaws Article Five Section 1 – Election of Officers	Yes	
2004-008	Inadequate Insurance Coverage	Yes	
2004-009	Ohio Revised Code § 3314.03(A)(8) – Filing of annual report with AOS	Yes	



**Auditor of State
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PHOENIX ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**