PHOENIX ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

PHOENIX ACADEMY
LUCAS COUNTY

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Mary Taylor, CPA
Auditor of State

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 Phoenix Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2006, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2006, 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 June 6, 2007, 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.

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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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 6, 2007

PHOENIX ACADEMY
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

The discussion and analysis of the Phoenix Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

The Governing Boards of Phoenix and Brigadoon Academies and the Ohio Department of Education approved the merger of Brigadoon Academy with Phoenix Academy dated June 26, 2006 that was effective August 31, 2006.

Financial Highlights

- Total Assets were $5,798,357.
- Total Liabilities were $5,116,919.
- Total Change in Net Assets was $494,043.

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (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 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.

Table 1 provides a summary of the Academy's net assets for fiscal year 2006 compared to fiscal year 2005:

Table 1
Net Assets

	2006	2005 (Restated)
Assets		
Current Assets	$ 5,768,653	$ 2,598,606
Security Deposit	2,292	
Capital Assets, Net	27,412	-
Total Assets	5,798,357	2,598,606
Liabilities		
Current Liabilities	5,116,919	2,411,211
Total Liabilities	5,116,919	2,411,211
Net Assets		
Invested in Capital Assets, Net of Related Debt	27,412	
Restricted for Grants	5,830	
Unrestricted	648,196	187,395
Total Net Assets	$ 681,438	$ 187,395

Total assets increased by $3,199,751, which represents a 123.1 percent increase from fiscal year 2005. Cash and cash equivalents increased by $2,157,683, and total receivables increased by $993,576. Cash and cash equivalents increased due to increased foundation and interest revenues. Receivables have increased due to Brigadoon Academy's liability to Phoenix Academy due to the merger. Total liabilities increased by $2,705,708, which represents a 112.2 percent increase from 2005.

Table 2 shows the changes in net assets for fiscal year 2006 as compared to fiscal year 2005.

Table 2
Change in Net Assets

	2006	2005 (Restated)
Revenues		
Operating Revenues:		
Foundation Payments	$ 4,725,670	$ 3,416,501
Disadvantaged Pupil Impact Aid		40,727
Poverty Based Assistance	12,389	
Special Education	148,833	5,658
Classroom Fees	109,979	74,437
Extracurricular Activities		258
Other Operating Revenues	9,604	250
Non-Operating Revenues:		
Federal and State Grants	25,943	10,925
Interest	153,752	32,290
Transfer from Brigadoon Net Assets	393,609	
Transfer from Brigadoon Net Payables	784,004	
Other	-	42,549
Total Revenues	6,363,783	3,623,595
Expenses		
Operating Expenses		
Salaries	17,612	11,125
Fringe Benefits	11,698	2,113
Purchased Services	5,586,833	3,736,216
Materials and Supplies	201,685	56,932
Depreciation	1,925	
Other Expenses	49,987	15,638
Total Expenses	5,869,740	3,822,024
Increase/(Decrease) in Net Assets	$ 494,043	$ (198,429)

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

There was an increase in revenues of $2,740,188 and an increase in expenses of $2,047,716 from fiscal year 2005. Of the increase in revenues, foundation revenues increased by $1,424,006, due to enrollment increases. Transfers from Brigadoon account for $1,177,613 of the increase. The expense for purchased services increased by $1,850,617 from fiscal year 2005 due to Phoenix and Brigadoon's liabilities to Toledo Public Schools for purchased services.

Capital Assets

At the end of fiscal year 2006 the Academy had $27,412 (net of $1,925 in accumulated depreciation) invested in furniture and equipment. The Academy's asset capitalization minimum is $5,000. Table 3 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 3
Capital Asset at June 30, 2006
(Net of Depreciation)

	2006	2005
Furniture, Fixtures, and Equipment	$ 27,412	$ -
Totals	$ 27,412	$ -

Current Financial Issues

The Academy was formed in 2003 sponsored by Toledo Public Schools. During the 2005-2006 school year, there were approximately 621 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2006 amounted to $5,218 per student. The Academy receives most of its finances from state aid.

As noted above Brigadoon Academy, for all intents and purposes has merged with Phoenix Academy on June 30, 2006. The effective date was August 31, 2006.

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 Ms. Rose Butler, Treasurer of Phoenix Academy, 2238 Jefferson Avenue, Toledo, Ohio 43604.

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 4,222,087
Intergovernmental Receivables	1,177,613
Prepaid Items	368,953
Total Current Assets	5,768,653
Noncurrent Assets:	
Security Deposits	2,292
Capital Assets, Net of Accumulated Depreciation	27,412
Total Noncurrent Assets	29,704
Total Assets	5,798,357
Liabilities:	
Current Liabilities:	
Accounts Payable	34,660
Accounts Payable to Toledo Public Schools	4,664,384
Due to Students	244
Intergovernmental Payable	417,631
Total Current Liabilities	5,116,919
Net Assets:	
Invested In Capital Assets, net of related debt	27,412
Restricted	5,830
Unrestricted	648,196
Total Net Assets	$ 681,438

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, 2006

Operating Revenues:		
Foundation Payments	$	4,725,670
Poverty Base Assistance		12,389
Special Education		148,833
Classroom Fees		109,979
Other Operating Revenues		9,604
Total Operating Revenues		5,006,475
Operating Expenses:		
Salaries		17,612
Fringe Benefits		11,698
Purchased Services		5,586,833
Materials and Supplies		201,685
Depreciation		1,925
Other Operating Expenses		49,987
Total Operating Expenses		5,869,740
Operating Loss		(863,265)
Non-Operating Revenues:		
Operating Grants - State		25,943
Interest		153,752
Transfers from Brigadoon Academy's Net Assets		393,609
Transfers from Brigadoon Academy's Net Payables		784,004
Total Non-Operating Revenues		1,357,308
Change in Net Assets		494,043
Net Assets at Beginning of Year		187,395
Net Assets at End of Year	$	681,438

See Accompanying Notes to the Basic Financial Statements

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 4,691,980
Cash Received from Extracurricular Activities	244
Case Received from Classroom Fees	109,979
Cash Received from Other Operating Sources	18,628
Cash Payments to Suppliers for Goods and Services	(2,793,447)
Cash Payments to Employees for Services	(18,711)
Cash Payments for Employee Benefits	(1,348)
Net Cash Provided by Operating Activities	2,007,325
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - State	25,943
Net Cash Provided by Noncapital Financing Activities	25,943
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(29,337)
Net Cash Used for Capital and Related Financing Activities	(29,337)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	153,752
Net Cash Provided by Investing Activities	153,752
Net Increase in Cash and Cash Equivalents	2,157,683
Cash and Cash Equivalents at Beginning of Year	2,064,404
Cash and Cash Equivalents at End of Year	$ 4,222,087

(Continued)

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(863,265)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		1,925
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets		
Decrease in Accounts Receivable		25,792
Decrease in Intergovernmental Receivable		158,245
Increase in Security Deposits		(2,292)
Increase in Prepaid Items		(18,788)
Increase (Decrease) in Liabilities:		
Increase in Accounts Payable		30,705
Increase in Accounts Payable to Toledo Public Schools		2,460,750
Decrease in Accrued Wages Payable		(1,099)
Increase in Due to Students		244
Increase in Intergovernmental Payable		215,108
Total Adjustments		2,870,590
Net Cash Provided by Operating Activities	$	2,007,325

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT 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 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 a contract with the 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 Assistant Treasurer of Toledo Public Schools served as fiscal officer of the Academy through December 31, 2005. On January 3, 2006, the Academy approved an amendment to the sponsorship agreement that allowed the Academy to hire a fiscal officer. On January 3, 2006 the Academy hired a fiscal officer.

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/support facility staffed by 3 non-certified and 11 certificated full time teaching personnel who provide services to 621 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 a governmental nonprofit organization. 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 revenues, 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. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash Flows.

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

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 statements of net assets. The statement of revenues, expenses, and 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.

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.

Revenues 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.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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 Academy on 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

For the purposes 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 2006, 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, 2006.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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 fiscal year in which services are consumed.

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five thousand dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
Furniture, Fixtures and Equipment	5 years

H. 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 adopted by the Academy or through external restrictions imposed by creditor, grantor, 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 assets are available.

I. 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.

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Basic Aid Program, the Poverty Basic Assistance 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 are met.

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

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

Eligibility requirements include timing requirements, which specify the fiscal 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

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. Security Deposits

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The security deposit in the amount of $2,292 is held by Toledo Great Eastern Limited, the lessor (See Note 13).

NOTE 3 – RESTATEMENT OF NET ASSETS

Amounts Payable to Toledo Public Schools was understated. The Academy's general operating cash balance exceeding $100,000 at 6/30/05 was not recognized as a liability to Toledo Public Schools on the Academy's balance sheet as of June 30, 2005. The amount could not be determined until the 2005 financial statements were audited. It was considered to be effectively a liability for the subsequent financial statements. The effect of this restatement on the Net Assets of the Governmental Activities as of July 1, 2005, is as follows:

	Total Governmental Activities
Governmental Activities Net Assets at June 30, 2005	$ 1,744,971
Payable to Toledo Public Schools	(1,557,576)
Restated Governmental Activities Net Assets at June 30, 2005	$ 187,395

NOTE 4 - DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2006, the carrying amount of the Academy's deposits was $1,412,325 and the bank balance was $1,753,594. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, $100,000 was covered by the Federal Depository Insurance Corporation and $1,653,594 was exposed to custodial credit risk.

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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 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 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 had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

The Academy's investments total $2,809,762 (fair value) that is maintained in a STAR Ohio Account. At June 30, 2006, STAR Ohio received the Standard &Poor's highest credit rating of AAA.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2006, consisted of an intergovernmental receivable from Brigadoon Academy due to the merger into Phoenix Academy (see Note 16).

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

Balance 06/30/05	Additions	Deductions	Balance 06/30/06
	$ 29,337		$ 29,337
	29,337		29,337
	(1,925)		$ (1,925)
	(1,925)		(1,925)
	$ 27,412		$ 27,412

NOTE 7 - 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. For the fiscal year ended 2006, the Academy obtained insurance thru broker Hylant Insurance with the following insurance coverage:

Commercial General Liability per Occurrence	$1,000,000
Commercial General Liability 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 Worker's 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 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

NOTE 8 - DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year 2006, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The employer rate for period ending June 30, 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal year June 30, 2006, 2005, and 2004 was $1,814, $1,176 and $898; 44.5 percent has been contributed for fiscal year June 30, 2006, and 100 percent has been contributed for fiscal years 2005 and 2004. $1,099 represents the unpaid contribution for the period ended June 30, 2006. The balance is reflected as an intergovernmental payable.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. 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% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation is 3.42 percent. 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 2006, the minimum pay was established at $35,800. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs for the year ending June 30, 2005 (the latest information available), were $178,221,113. The target level for the health care fund is 150% 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% of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 58,123.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year 2006, the Board allocated employer contributions equal to 3.42 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the School, the amount to fund health care benefits, including surcharge, equaled $583 for the fiscal year 2006.

NOTE 10 - OTHER EMPLOYEE BENEFITS

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

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 2005-2006. Total expenses paid to TPS were $1,174,439 for the fiscal year ended June 30, 2006. Of that amount, sponsorship fees, equal to 3 percent of foundation revenues were $134,846, and management fees, equal to 10 percent of foundation revenues were $449,485. The remaining were expenses for purchased services.

In addition, the Academy pays TPS an annual fee in the subsequent year totaling the lesser of: (a) 100 percent of the amount in excess of $500,000 of the unencumbered general operating fund balance, or (b) the amount of that balance that is in excess of the minimum financial amount required to be eligible to sponsor a community school in the State of Ohio (currently $500,000). For the fiscal year ended June 30, 2006, the Academy recognized a liability to TPS for it's general operating fund balance in excess of $500,000 for $2,031,977.

Terms of the contract require TPS to provide the following:

- All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy;
- 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;
- All personnel functions, including professional development for the Academy principal, all instructional personnel, and support staff;
- All aspects of the business administration of the Academy;
- Transportation and food service for the Academy;
- A projected annual budget prior to each year;
- 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;
- Annual audits in compliance with state law and regulations' performances, upon request;

NOTE 11 - MANAGEMENT AGREEMENT – (Continued)

- Reports on Academy operations, finances, and students' performances, upon request; and,
- Any Other function necessary or expedient for the administration of the Academy.

NOTE 12 - PURCHASED SERVICES

For the period July 1, 2005, through June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$	5,265,650
Property Services		248,424
Travel Mileage/Meeting Expense		17,685
Communications		36,362
Utilities		13,758
Contracted Craft or Trade Services		4,344
Tuition		74
Other Purchased Services		536
Total Purchased Services	$	5,586,833

NOTE 13 - OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into a lease for the period August 28, 2004 through August 28, 2005 with the Sponsor to lease space to house the Academy. In August 2005, the Academy renewed the lease for an additional one-year term. In fiscal year 2006, expense under the lease for the Academy totaled $143,488 with May and June's rent of $49,133 recognized as Payable to Toledo Public Schools at June 30, 2006. In August 2006, the Academy has renewed the lease for an additional one-year term.

The Academy entered into a lease for 3 years with Pearson Digital Learning in fiscal year 2004 for use of NovaNet software. The Academy paid $521,075 for 3 years in advance. The Academy entered an additional lease for 3 years with Pearson Digital Learning in fiscal year 2006 for use of NovaNet software. The Academy paid $207,813 for 3 years in advance. As of June 30, 2006, there was an outstanding prepaid to Pearson Digital Learning in the amount of $364,186

The Academy entered into a lease for the period September 8, 2005 through September 8, 2008 with Toledo Great Eastern Limited to lease additional space to house the Academy. The lease can be renewed for three additional years. In fiscal year 2006, expense under the lease for the Academy totaled $20,958.

The Academy entered into a lease for the period September 1, 2005 through September 1, 2008 with Joseph Brothers Company, LLC to lease additional space to house the Academy. The lease can be extended. In fiscal year 2006, expense under the lease for the Academy totaled $13,170.

The Academy entered into a lease for the period September 19, 2005, through September 19, 2008 with McCord Plaza Development to lease additional space to house the Academy. The lease can be extended. In fiscal year 2006, expenses under the lease for the Academy totaled $15,873.

NOTE 14 - CONTINGENCIES

A. Grants

The Academy receives 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 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 any of the financial statements of included herein or on the overall financial position of the Academy at June 30, 2006.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Schools. These reviews are conducted to ensure the Schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2006, the review resulted in a reduction of funding fo $403,995. This amount is reflected as an Intergovernmental Payable.

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under the Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Phoenix Academy is not presently determinable.

NOTE 15 – RELATED PARTY TRANSACTIONS

The following board members were the same for Brigadoon, Phoenix, and Polly Fox Academies that are sponsored by Toledo Public Schools: 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 $1,500; and Ms. Reasonover $1,375.

The Academy's previous Fiscal Officer, James Larson-Shidler, received pay from the Academy of $2,500 through December 31, 2005 and was also the Assistant to the Treasurer of TPS, the Sponsor/Management Company of the Academy.

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

NOTE 16 - SUBSEQUENT EVENTS

The Governing Board of Brigadoon, the Governing Board of Phoenix, the Sponsor, and the Ohio Department of Education approved the merger of Brigadoon Academy with Phoenix Academy dated June 26, 2006, effective August 31, 2006.

The financial statement captions “Transfers from Brigadoon Academy’s Net Assets” and “Transfers from Brigadoon Academy’s Net Payables” represent recognition of activity and obligations from the merger with Brigadoon Academy.

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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 Phoenix Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2006, and have issued our report thereon dated June 6, 2007. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A Reportable condition is described in the accompanying schedule of findings as item 2006-001.

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 condition described above is a material weakness**.** In a separate letter to the Academy's management dated June 6, 2007, 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*. In a separate letter to the Academy's management dated June 6, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

Mary Taylor, CPA
Auditor of State

June 6, 2007

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

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:

- Payments for services to Toledo Public Schools are made greater than thirty days from the invoice date.

- 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; none of the invoices provided to Phoenix Academy by TPS were attached to the voucher packet, and none of the invoices agreed to the amounts paid. Also, there was no support for the allocation of payroll and fringe benefits; or support for various reconciling items; Although we were able to determine the differences between the amounts paid and the amounts invoiced, the documentation supporting the differences was incomplete and insufficient.

- Amounts billed by Toledo Public Schools for rent are not consistently based on a monthly amount for the number of months in a billing period base on the annual lease agreement.

- Amounts billed by Toledo Public Schools for internet services are not consistently based on a monthly amount for the number of months in a billing period. Although there is no specific contract in place, there is an understood agreement, by all parties, for the amount of $1,500 per month to be allocated to Phoenix, Polly Fox, and Brigadoon Academies based on enrollment.

- The Academy has obligations to pay Toledo Public Schools for Sponsorship, Management Fees, and excess cash balances. The Academy has underpaid the FY 04 excess cash balance.

These conditions 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 received and paid timely (monthly/quarterly); (2) invoices contain all necessary supporting documentation to facilitate adequate, accurate review and approval by the Academy's Board prior to payment; (3) certain consistent monthly services (i.e. rent, internet) are paid based on a pre-determined monthly amount; (4) consideration be given to entering written agreements for services that are consistent in nature and amounts; and (5) sponsorship and management fees, and excess cash balance obligation calculations are re-performed and approved by the Board prior to payment.

Officials Response

The Treasurer has indicated that since she began in December 2005 she has met with administrators from Toledo Public Schools (Sponsor), and intends to make continued efforts to improve communications with Toledo Public Schools regarding invoicing and the terms of the Sponsorship Agreement.

PHOENIX ACADEMY
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Developing and Implementing an Effective Monitoring Control System	Yes	Finding No Longer Valid
2005-002	Invoices and Expenses Contract with TPS and related expenses not being processed timely and supported completely	No	Not Corrected; Repeated and updated as Finding 2006-001

Mary Taylor, CPA
Auditor of State

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
JULY 3, 2007

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