



**PHOENIX ACADEMY
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

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, 2008, 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 Phoenix Academy, as of June 30, 2008, 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 April 22, 2009, 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 accounting principles generally accepted in the United States of America 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 22, 2009

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
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, 2008. 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.

Financial Highlights

- Total Assets were \$4,032,537.
- Total Liabilities were \$2,162,672.
- Total Change in Net Assets was \$848,487.

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.

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2008?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2008 compared to fiscal year 2007:

| Table 1 Net Assets | | |
|---|--------------|--------------|
| | 2008 | 2007 |
| Assets | | |
| Current Assets | \$ 3,971,615 | \$ 4,813,782 |
| Security Deposit | 2,292 | 2,292 |
| Capital Assets, Net | 58,630 | 58,638 |
| Total Assets | █ 4,032,537 | █ 4,874,712 |
| Liabilities | | |
| Current Liabilities | 2,162,672 | 3,853,334 |
| Total Liabilities | 2,162,672 | 3,853,334 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 58,630 | 58,638 |
| Restricted for Grants | 25,528 | 1,396 |
| Unrestricted | 1,785,707 | 961,344 |
| Total Net Assets | \$ 1,869,865 | \$ 1,021,378 |

Total assets decreased by \$842,175, which represents a 17.3 percent decrease from fiscal year 2007. While cash and cash equivalents decreased by \$1,486,120, total receivables increased by \$74,579. Total liabilities decreased by \$1,690,662, which represents a 43.9 percent decrease from 2007. Amounts payable to Toledo Public Schools has decreased by \$1,563,123. The Academy's net assets increased by \$848,487, mainly from State Basic Foundation payments.

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2008 as compared to fiscal year 2007.

Table 2
Change in Net Assets

| | 2008 | 2007 |
|--------------------------------|-------------------|-------------------|
| Revenues | | |
| Operating Revenues: | | |
| Foundation Payments | \$ 5,630,767 | \$ 4,819,504 |
| Disadvantaged Pupil Impact Aid | | |
| Poverty Based Assistance | | 142 |
| Special Education | 362,633 | 411,870 |
| Classroom Fees | 135,484 | 132,468 |
| Extracurricular Activities | | |
| Other Operating Revenues | 27,307 | 86,837 |
| Non-Operating Revenues: | | |
| Federal and State Grants | 176,502 | 141,127 |
| Contributions and Donations | | 582 |
| Interest | 213,757 | 320,212 |
| Total Revenues | 6,546,450 | 5,912,742 |
| Expenses | | |
| Operating Expenses | | |
| Salaries | 47,540 | 94,466 |
| Fringe Benefits | 1,222 | 10,305 |
| Purchased Services | 5,446,076 | 5,308,092 |
| Materials and Supplies | 162,300 | 93,045 |
| Depreciation | 17,743 | 10,414 |
| Other Expenses | 23,082 | 56,480 |
| Total Expenses | 5,697,963 | 5,572,802 |
| Increase in Net Assets | \$ 848,487 | \$ 339,940 |

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

There was an increase in total revenues of \$633,708, and an increase in total expenses of \$125,161 from fiscal year 2007. Of the increase in revenues, federal and state entitlement and grant revenue increased by \$797,259.

The expense for salaries decreased by \$46,926 from fiscal year 2007. Material and supplies expense increased by \$69,255.

**PHOENIX ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2008, the Academy had \$58,630 (net of \$30,082 in accumulated depreciation) invested in furniture and equipment. The Academy's asset capitalization minimum is \$5,000. Table 3 shows fiscal year 2008 balances compared to fiscal year 2007 (See Note 5):

Table 3
Capital Asset at June 30, 2008
(Net of Depreciation)

| | 2008 | 2007 |
|------------------------------------|-----------|-----------|
| Furniture, Fixtures, and Equipment | \$ 58,630 | \$ 58,638 |
| Totals | \$ 58,630 | \$ 58,638 |

Current Financial Issues

The Academy was formed in 2003 sponsored by Toledo Public Schools. During the 2007-2008 school year, there were approximately 882 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2008 amounted to \$5,565 per student. The Academy receives most of its finances from state aid.

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, 2008**

Assets:

Current Assets:

| | |
|--|------------------|
| Equity in Pooled Cash and Cash Equivalents | \$ 3,102,135 |
| Intergovernmental Receivables | 172,368 |
| Prepaid Items | <u>697,112</u> |
| Total Current Assets | <u>3,971,615</u> |

Non-Current Assets:

| | |
|---|-------------------------|
| Security Deposits | 2,292 |
| Capital Assets, Net of Accumulated Depreciation | <u>58,630</u> |
| Total Non-Current Assets | <u>60,922</u> |
| Total Assets | <u><u>4,032,537</u></u> |

Liabilities:

Current Liabilities:

| | |
|---|------------------|
| Accounts Payable | 10,335 |
| Accounts Payable to Toledo Public Schools | 2,152,042 |
| Accrued Wages and Benefits Payable | <u>295</u> |
| Total Current Liabilities | <u>2,162,672</u> |

Net Assets:

| | |
|---|----------------------------|
| Invested in Capital Assets, Net of Related Debt | 58,630 |
| Restricted | 25,528 |
| Unrestricted | <u>1,785,707</u> |
| Total Net Assets | <u><u>\$ 1,869,865</u></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, 2008**

Operating Revenues:

| | |
|--------------------------|------------------|
| Foundation Payments | \$ 5,630,767 |
| Special Education | 362,633 |
| Classroom Fees | 135,484 |
| Other Operating Revenues | 27,307 |
| Total Operating Revenues | <u>6,156,191</u> |

Operating Expenses:

| | |
|--------------------------|------------------|
| Salaries | 47,540 |
| Fringe Benefits | 1,222 |
| Purchased Services | 5,446,076 |
| Materials and Supplies | 162,300 |
| Depreciation | 17,743 |
| Other Operating Expenses | 23,082 |
| Total Operating Expenses | <u>5,697,963</u> |
| Operating Income | <u>458,228</u> |

Non-Operating Revenues:

| | |
|------------------------------|---------------------|
| Operating Grants - Federal | 176,502 |
| Interest | 213,757 |
| Total Non-Operating Revenues | <u>390,259</u> |
| Change in Net Assets | 848,487 |
| Net Assets Beginning of Year | <u>1,021,378</u> |
| Net Assets End of Year | <u>\$ 1,869,865</u> |

See Accompanying Notes to the Basic Financial Statements

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

| | |
|---|-----------------|
| Cash Received from State of Ohio | \$ 5,878,485 |
| Cash Received from Classroom Fees | 135,484 |
| Cash Received from Other Operating Sources | 26,967 |
| Cash Payments to Suppliers for Goods and Services | (7,764,101) |
| Cash Payments to Employees for Services | (47,245) |
| Cash Payments for Employee Benefits | <u>(12,331)</u> |

Net Cash Used for Operating Activities (1,782,741)

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants - Federal 100,599

Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Acquisitions (17,735)

Cash Flows from Investing Activities:

Cash Received from Interest on Investments 213,757

Net Decrease in Cash and Cash Equivalents (1,486,120)

Cash and Cash Equivalents at Beginning of Year 4,588,255

Cash and Cash Equivalents at End of Year \$ 3,102,135

(Continued)

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

**Reconciliation of Operating Income
to Net Cash Used for Operating Activities:**

Operating Income \$ 458,228

**Adjustments to Reconcile Operating Income
to Net Cash Used for Operating Activities:**

Depreciation 17,743
Changes in Assets and Liabilities:
(Increase) Decrease in Assets
Decrease in Intergovernmental Receivable 1,324
Increase in Prepaid (569,374)
Increase (Decrease) in Liabilities:
Decrease in Accounts Payable (486)
Decrease in Accounts Payable to Toledo Public Schools (1,563,123)
Increase in Accrued Wages and Benefits Payable 295
Decrease in Intergovernmental Payable (127,348)

Total Adjustments (2,240,969)

Net Cash Used for Operating Activities \$ (1,782,741)

See Accompanying Notes to the Basic Financial Statements

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE ACADEMY 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 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 and three satellite facilities staffed by 21 non-certified and 16 certificated full time teaching personnel who provide services to 882 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.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

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

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

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.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

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

During fiscal year 2008, 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, 2008.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| 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 goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

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

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Basic Aid 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.

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 12).

NOTE 3 - DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2008, the carrying amount of the Academy's deposits was \$576,541 and the bank balance was \$2,115,643. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, \$200,000 was covered by the Federal Depository Insurance Corporation and \$1,915,643 was exposed to custodial credit risk.

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.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

NOTE 3 - DEPOSITS AND INVESTMENTS – (Continued)

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 \$2,525,594 (fair value) that is maintained in a STAR Ohio Account. At June 30, 2008, STAR Ohio received the Standard & Poor's highest credit rating of AAA.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental receivables arising from grants, entitlement shared revenues and an overpayment to the State Employees Retirement System. All receivables are considered collectable in full. The following Intergovernmental Receivables consist of the following grants and overpayment:

| | | |
|--|----|---------|
| 516 IDEA B | \$ | 167,682 |
| 573 Title V Innovative Programs | | 1,955 |
| 584 Title IV-A Safe & Drug Free School | | 1,267 |
| SERS Overpayment | | 1,464 |
| Total Intergovernmental Receivable | \$ | 172,368 |

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

| | Balance 06/30/07 | Additions | Deductions | Balance 06/30/08 |
|-----------------------------------|-----------------------------|------------------|-------------------|-----------------------------|
| Capital Assets Being Depreciated | | | | |
| Furniture, Fixtures and Equipment | \$ 70,977 | \$ 17,735 | | \$ 88,712 |
| Total Capital Assets Being | | | | |
| Being Depreciated | 70,977 | 17,735 | | 88,712 |
| Less Accumulated Depreciation: | | | | |
| Furniture, Fixtures and Equipment | (12,339) | (17,743) | | \$ (30,082) |
| Total Accumulated Depreciation | (12,339) | (17,743) | | (30,082) |
| Capital Assets, Net of A/D | \$ 58,638 | \$ (8) | | \$ 58,630 |

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(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. For the fiscal year ended 2008, 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) | 290,000 |
| 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 7 - DEFINED BENEFIT PENSION PLANS

A. School Employee 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 43215-3476.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

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 2008, 9.16 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, 2008, 2007, and 2006, were \$4,091, \$9,981 and \$1,814 respectively; 100 percent has been contributed for fiscal year 2008, 2007, and 2006.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

NOTE 7 - DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006, were \$231,525, \$196,978, and \$105,894 respectively; 75 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$630.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$2,162, \$3,939, and \$583 respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

NOTE 8 - POSTEMPLOYMENT BENEFITS – (Continued)

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008 and 2007, were \$17,810, and \$15,152, respectively; 80 percent has been contributed for fiscal year 2008 and 100 percent for fiscal year 2007.

NOTE 9 - OTHER EMPLOYEE BENEFITS

Most employees of the Academy are employed by Toledo Public Schools. Policies and procedures are approved by the Toledo Public School's 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 - 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 fiscal year 2008. Total expenses to TPS were \$5,315,847, of which \$2,152,042 is recognized as an amount payable to Toledo Public Schools at fiscal year ended June 30, 2008. The total amount consists of 2008 Sponsorship fees equal to 3 percent of foundation revenues for \$180,498, 2008 Fiscal Agent/Management fees equal to 10% of foundation revenues for \$601,659, a 2008 annual fee of \$1,493,194, 2007 Sponsorship and Fiscal Agent/Management fees for \$747,555, a 2007 annual fee of \$2,292,941 and the remaining was purchased services.

The annual fee is paid in the subsequent fiscal 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, 2008, the Academy recognized a liability to TPS for its general operating fund balance in excess of \$500,000 of \$1,493,194.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

NOTE 10 - MANAGEMENT AGREEMENT – (Continued)

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

NOTE 11 - PURCHASED SERVICES

For the period July 1, 2007, through June 30, 2008, purchased service expenses were payments for services rendered by various vendors, as follows:

| | |
|-------------------------------------|----------------------------|
| Professional and Technical Services | \$ 5,018,395 |
| Property Services | 349,007 |
| Travel Mileage/Meeting Expense | 10,517 |
| Communications | 49,071 |
| Utilities | 15,907 |
| Contracted Craft or Trade Services | 993 |
| Tuition | 2,186 |
| Total Purchased Services | <u><u>\$ 5,446,076</u></u> |

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

NOTE 12 - OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into an extended lease for the period August 28, 2007, through August 28, 2008, with the Sponsor to lease space to house the Academy. In fiscal year 2008, expense under the lease for the Academy totaled \$341,464 with rent of \$52,272 recognized as Payable to Toledo Public Schools at June 30, 2008.

The Academy has entered into leases for 3 years each with Pearson Digital Learning for use of NovaNet software. The Academy paid in 2006, \$207,813, and in 2008, \$826,645 for 3 years in advance. As of June 30, 2008, there was an outstanding prepaid in the amount for \$660,523.

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 2008, expense under the lease for the Academy totaled \$35,787.

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 2008, expense under the lease for the Academy totaled \$21,370.

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 2008, expenses under the lease for the Academy totaled \$20,933. This lease was again extended for the 2009 school year.

NOTE 13 - 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, 2008.

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 2008, the review resulted in a reduction of funding for \$66,151.

**PHOENIX ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

NOTE 14 – RELATED PARTY TRANSACTIONS

Ms. Joan Kuchcinski and Joan Reasonover are board members for both Phoenix and Polly Fox Academies that are sponsored by Toledo Public Schools (TPS). Both are also employed by TPS.

Ms. Kuchcinski received \$1,250 and Ms. Reasonover received \$1,250 in compensation as board members from the Academy.



Mary Taylor, CPA

Auditor of State

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 basic financial statements of Phoenix Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated April 22, 2009. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the Academy's management in a separate letter dated April 22, 2009.

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 did note an instance of noncompliance that we reported to the Academy's management in a separate letter dated April 22, 2009.

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

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

Mary Taylor, CPA
Auditor of State

April 22, 2009

**PHOENIX ACADEMY
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2007-001 | Invoices and Expenses Contract with TPS and related expenses not being processed timely and supported completely | No | Partially Corrected; Reported in the Management Letter. |
| 2007-002 | Posting of Transactions and the GAAP Conversion Process | No | Partially Corrected; Reported in the Management Letter. |



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
MAY 26, 2009