PHOENIX ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDING JUNE 30, 2010

Dave Yost • Auditor of State

PHOENIX ACADEMY
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Academy
Lucas County
1505 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited the accompanying basic financial statements of Phoenix Academy, Lucas County (the Academy), as of and for the year ended June 30, 2010, 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 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 financial position of Phoenix Academy, as of June 30, 2010, 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 May 18, 2011, 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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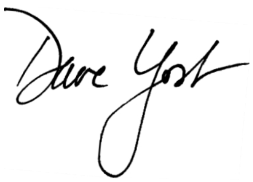
Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.



Dave Yost
Auditor of State

May 18, 2011

PHOENIX ACADEMY
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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, 2010. 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 $5,095,593.
- Total Liabilities were $2,629,842.
- Total Change in Net Assets was a decrease of $1,203,556.

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 Revenues, Expenses and Changes in Net Assets, 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 Nets Assets and the Statement of Revenues, Expenses and Changes in Net Assets 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.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2010?" 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 2010 compared to fiscal year 2009:

Table 1
Net Assets

	2010	2009
Assets		
Current Assets	$ 2,920,335	$ 3,166,420
Capital Assets, Net	2,175,618	1,171,070
Total Assets	5,095,953	4,337,490
Liabilities		
Current Liabilities	2,629,842	667,823
Total Liabilities	2,629,842	667,823
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,175,618	1,171,070
Restricted for Improvements		1,000,000
Restricted for Grants	814,678	674,236
Unrestricted	(524,185)	824,361
Total Net Assets	$ 2,466,111	$ 3,669,667

Total assets increased by $758,463, which represents a 17.49 percent increase from fiscal year 2009. While cash and cash equivalents decreased by $83,572, and prepaid decreased by $257,348, total receivables increased by $94,835. Capital Assets increased by $1,004,548 due to building renovations. Total liabilities increased by $1,962,019, which represents a 293.79 percent increase from 2009 primarily due to increased Accounts Payable to Toledo Public Schools (the Academy's Sponsor). The Academy's net assets decreased by $1,203,556.

Table 2 shows the changes in net assets for fiscal year 2010 as compared to fiscal year 2009.

Table 2
Change in Net Assets

	2010	2009
Revenues		
Operating Revenues:		
Foundation Payments	$ 4,361,992	$ 5,114,078
Special Education	487,574	521,695
Classroom Fees	141,679	148,248
Other Operating Revenues	50,594	2,491
Non-Operating Revenues:		
Federal and State Grants	517,039	190,362
Interest	23,368	74,840
Total Revenues	5,582,246	6,051,714
Expenses		
Operating Expenses		
Salaries	136,716	96,487
Fringe Benefits	30,918	18,016
Purchased Services	6,352,302	3,910,517
Materials and Supplies	103,744	183,029
Depreciation	78,256	11,875
Other Expenses	83,866	31,988
Total Expenses	6,785,802	4,251,912
Change in Net Assets	$ (1,203,556)	$ 1,799,802

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

There was a decrease in revenues of $469,468 and an increase in expenses of $2,533,890 from fiscal year 2009. Of the decrease in revenues, foundation payments and special education decreased by $786,207 and federal and state grant revenue increased by $326,677.

The expense for purchased services increased by $2,441,785, from fiscal year 2009. The Academy owes Toledo Public Schools $1,971,925 in Sponsor, Administrative, and excess balance fees, and $525,780 for May and June 2010 purchased services.

Capital Assets

At the end of fiscal year 2010 the Academy had $2,175,618 (net of $120,213 in accumulated depreciation) invested in furniture, equipment and a building. The building was purchased in June 2009. Building renovations were purchased this fiscal year for $1,052,311 which was capitalized instead of being expensed.

The Academy's asset capitalization minimum is $5,000. Table 3 shows fiscal year 2010 balances compared to fiscal year 2009:

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

	2010	2009
Building	$2,122,210	$1,124,315
Furniture, Fixtures, and Equipment	53,408	46,755
Totals	$2,175,618	$1,171,070

Current Financial Issues

The Academy was formed in 2003 sponsored by Toledo Public Schools. During the 2009-2010 school year, there were approximately 711 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2010 amounted to $5,718 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,1505 Jefferson Avenue, Toledo, Ohio 43604.

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 2,578,545
Intergovernmental Receivables	202,842
Prepaid Items	138,948
Total Current Assets	2,920,335
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	2,175,618
Total Assets	5,095,953
Liabilities:	
Current Liabilities:	
Accounts Payable	48,109
Accounts Payable to Toledo Public Schools	2,497,705
Accrued Wages and Benefits Payable	84,028
Total Current Liabilities	2,629,842
Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,175,618
Restricted	814,678
Unrestricted	(524,185)
Total Net Assets	$ 2,466,111

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, 2010

Operating Revenues:	
Foundation Payments	$ 4,361,992
Special Education	487,574
Classroom Fees	141,679
Other Operating Revenues	50,594
Total Operating Revenues	5,041,839
Operating Expenses:	
Salaries	136,716
Fringe Benefits	30,918
Purchased Services	6,352,302
Materials and Supplies	103,744
Depreciation	78,256
Other Operating Expenses	83,866
Total Operating Expenses	6,785,802
Operating Loss	(1,743,963)
Non-Operating Revenues:	
Operating Grants - Federal	512,039
Operating Grants - State	5,000
Interest	23,368
Total Non-Operating Revenues	540,407
Change in Net Assets	(1,203,556)
Net Assets Beginning of Year	3,669,667
Net Assets End of Year	$ 2,466,111

See Accompanying Notes to the Basic Financial Statements

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PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 4,921,580
Cash Received from Classroom Fees	141,679
Cash Received from Other Operating Sources	490
Cash Payments to Suppliers for Goods and Services	(4,400,704)
Cash Payments to Employees for Services	(136,716)
Cash Payments for Employee Benefits	(20,714)
Net Cash Provided by Operating Activities	505,615
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - Federal	465,249
Cash Received from Operating Grants - State	5,000
Net Cash Provided by Noncapital Financing Activities	470,249
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(1,082,804)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	23,368
Net Decrease in Cash and Cash Equivalents	(83,572)
Cash and Cash Equivalents at Beginning of Year	2,662,117
Cash and Cash Equivalents at End of Year	$ 2,578,545

(Continued)

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Loss	$ (1,743,963)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	78,256
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	2,059
Increase in Intergovernmental Receivable	(50,104)
Decrease in Prepaid	257,348
Increase in Accounts Payable	40,981
Increase in Accounts Payable to Toledo Public Schools	1,838,820
Increase in Intergovernmental Payable	82,218
Total Adjustments	2,249,578
Net Cash Provided by Operating Activities	$ 505,615

See Accompanying Notes to the Basic Financial Statements

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 Academy has entered a new contract with Toledo Public Schools (the Sponsor) for three years effective July 1, 2008 through June 30, 2011, with two one year renewal periods at the option of the parties.

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 14 non-certified and 27 certificated full time teaching personnel who provide services to 711 students.

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.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

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.

During fiscal year 2010, 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, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, 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 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
Buildings	40 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. Restricted Net Assets include restricted for state and federal grants.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2010, the carrying amount of the Academy's deposits was $1,554,826 and the bank balance was $1,826,459. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2010, $250,000 was covered by the Federal Depository Insurance Corporation and $1,576,459 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.

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 $1,023,719 (fair value) that is maintained in a STAR Ohio Account. At June 30, 2010, STAR Ohio received the Standard &Poor's highest credit rating of AAA.

4. INTERGOVERMENTAL RECEIVABLES

Intergovernmental Receivables at June 30, 2010, consisted of receivables arising from grants, entitlement, and shared revenues and rental recievables from Polly Fox Academy, which are considered collectible in full.

4. INTERGOVERMENTAL RECEIVABLES (Continued)

IDEA B	$ 91,278
Title I	60,580
Title IV-A Safe & Drug Free School	880
Rent From Polly Fox	50,104
Total Intergovernmental Receivable	$ 202,842

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 06/30/09	Additions	Deductions	Balance 06/30/10
Capital Assets Being Depreciation:				
Building	$ 1,124,315	$ 1,052,311		$ 2,176,626
Furniture, Fixtures, and Equipment	88,712	30,493		119,205
Total Capital Assets Being Depreciated	1,213,027	1,082,804		2,295,831
Less Accumulated Depreciation:				
Building		(54,416)		(54,416)
Furniture, Fixtures, and Equipment	(41,957)	(23,840)		(65,797)
Total Accumulated Depreciation	(41,957)	(78,256)		(120,213)
Capital Assets, Net of A/D	$ 1,171,070	$ 1,004,548		$ 2,175,618

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 2010, the Academy obtained insurance thru broker Hylant Insurance with the following insurance coverage:

Property Damage per Occurrence	$2,620,000
General Liability Coverage:	
Bodily Injury and Property Damage Limit	$5,000,000
Personal and Advertising Injury Limit	5,000,000
General Aggregate Limit	7,000,000
Fire Damage Limit-Any one event	500,000
Medical Expense-Any One Person or accident	10,000
Legal Liability Coverage:	
Errors and Omissions Injury Limit	5,000,000
Aggregate	7,000,000

6. RISK MANAGEMENT (Continued)

Fiduciary Liability Coverage:	
Each Fiduciary Claim Limit	5,000,000
Aggregate	7,000,000
Employers'' Liability (Ohio Stop Gap):	
Bodily Injury by Accident	5,000,000
Bodily Injury by Disease	5,000,000

There have been no claims paid for the past two fiscal years.

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.

7. 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. SERS provides retirement, disability and survivor 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 stand–alone 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 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohser.org under *Forms and Publications*.

For the fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute 14 percent of annual covered payroll; 12.78 percent was the portion used to fund pension and death benefit 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, 2010, 2009 and 2008 was $8,670, $3,446, and $4,091; 97.0 percent has been contributed for fiscal year 2010, and 100.0 perscent for 2009, and 2008.

B. State Teachers Retirement Systems

The Academy contributes to 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.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Options - New members have a choice of three retirement plan options , 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

For the fiscal year ended June 30, 2010, 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. 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, 2010, 2009, and 2008 were $320,608, $206,808, and $231,525 respectively; 98.0 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal year 2009 and 2008.

8. POSTEMPLOYMENT BENEFITS

A. School Employees 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

8. POSTEMPLOYMENT BENEFITS (Continued)

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 2010, 1.22 percent of covered payroll was allocated to Health Care and Medicare B Funds. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was $1,018.

Active employee members do not contribute to the Health Care Plan. Retireesand 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.

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The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were $1,845, $1,821, and $2,162 respectively; 97.0 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal years 2009, and 2008.

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 2010, 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, 2010, 2009 and 2008, were $22,901, $7,906, and $214, respectively; 98.0 percent has been contributed for fiscal year 2010, and 100 percent has been contributed for fiscal years 2009, and 2008.

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' Board of Education and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of staff purchased from Toledo Public Schools by contract.

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 has entered a new contract with Toledo Public Schools (the Sponsor) for three years effective July 1, 2008 through June 30, 2011, with two one year renewal periods at the option of the parties.

Total expenses paid to TPS were $6,257,165 of which $2,497,705 is recognized as an amount due to TPS at fiscal year ended June 30, 2010. The total amount consists of sponsorship fees equaled to 3 percent of foundation revenues for $315,379, annual fees of $1,555,231, Administrative charges for $101,315 and the remaining was for purchased services.

The annual fee is paid in the subsequent fiscal year totaling an amount equal to 100% of the Unencumbered Balance of the amount in excess of $500,000 with exceptions detailed in the Contract with Sponsor. For the fiscal year ended June 30, 2010, the Academy recognized a liability to TPS for $1,555,231.

Terms of the contract require TPS to provide the following:

A. All instructional personnel, and support staff, all payroll and inclusion in benefit plans;

B. Transportations for the School upon request of the School;

C. Reports on School operations, finances, and students' performance, upon request of the School;

D. Any other function necessary or expedient for the administration of the School at the request of the School;

E. Detailed, itemized monthly invoices of costs associated with A-D above.

11. PURCHASED SERVICES

For the period July 1, 2009 through June 30, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$	5,803,900
Property Services		384,790
Travel Mileage/Meeting Expense		22,107
Communications		83,396
Utilities		58,019
Transportation Services		90
Total Purchased Services	$	6,352,302

12. OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into an extended lease for the period August 28, 2009 through August 28, 2010 with the Sponsor to lease space to house the Academy. In fiscal year 2010, expense under the lease for the Academy totaled $162,064 when the lease was terminated during March of 2010 because the Academy moved to their new building that they purchased and renovated.

The Academy entered into a lease for 3 years in fiscal year 2008 for 3 years with Pearson Digital Learning for use of NovaNet software. The Academy paid $826,645 for 3 years in advance. As of June 30, 2010, there was an outstanding prepaid in the amount for $109,435.

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 and was extended through fiscal year 2010. In fiscal year 2010, expense under the lease for the Academy totaled $20,875 with $3,201 for July and August 2010 prepaid.

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 and was again extended through fiscal year 2010. In fiscal year 2010, expenses under the lease for the Academy totaled $24,386 with $1,838 for July 2010 being prepaid.

The Academy entered into a lease for the period August 25, 2008 through August 2009 with East Toledo Family Center to lease additional space to house the Academy. The lease was extended through 2010. In fiscal year 2010, expenses under the lease for the Academy total $36,000 with $3,000 for July 2010 being prepaid.

13. CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous 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 operating fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of included herein or on the overall financial position of the Academy at June 30, 2010.

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 2010, the review resulted in a decrease in funding in the amount of $72,014.

14. RELATED PARTY TRANSACTIONS

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

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

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

Phoenix Academy
Lucas County
1505 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited the financial statements Phoenix Academy, Lucas County (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated May 18, 2011. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-003 described in the accompanying schedule of findings to be a material weakness.

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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 instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2010-001 and 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated May 18, 2011.

We intend this report solely for the information and use of management, the audit committee, the Governing Board, the Academy's sponsor, and others within the Academy. We intend it for no one other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

May 18, 2011

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

FINDING NUMBER 2010-001

Noncompliance Citation

Ohio Revised Code § 3314.07 (A) states that the expiration of the contract for a community school between a sponsor and a school shall be the date provided in the contract. A successor contract may be entered into pursuant to division (E) of section 3314.03 of the Revised Code unless the contract is terminated or not renewed pursuant to this section.

Ohio Revised Code § 3314.03 (E) requires that upon the expiration of a contract entered into under this section, the sponsor of a community school may, with the approval of the governing authority of the school, renew that contract for a period of time determined by the sponsor, but not ending earlier than the end of any school year, if the sponsor finds that the school's compliance with applicable laws and terms of the contract and the school's progress in meeting the academic goals prescribed in the contract have been satisfactory. Any contract that is renewed under this division remains subject to the provisions of sections 3314.07, 3314.072, and 3314.073 of the Revised Code.

The sponsorship agreement between Phoenix Academy and Toledo Public Schools, its sponsor, expired as of June 30, 2008. There was no agreed upon sponsor contract throughout fiscal years 2010 and 2009. The board entered a new contract, June 29, 2010 retroactive to July 1, 2008.

The lack of a written sponsorship agreement between Phoenix Academy and Toledo Public Schools could result in Phoenix Academy being noncompliant with applicable laws including operating without an approved contract and be required to return all funding back to the Ohio Department of Education. It could also result in poor academic and/or fiscal performance, which could ultimately result in the closure of Phoenix Academy

We recommend Phoenix Academy upon the expiration of a contract with it's Sponsor finalize the terms for the renewal of the sponsorship agreement or determine whether an alternative sponsor should be selected. The terms of the contract should be in writing and signed by the appropriate officials of Phoenix Academy and the Sponsor on a timely basis.

FINDING NUMBER 2010-002

Noncompliance Citation

Ohio Revised Code §3314.03 (D) states that the contract between the governing authority of a community school and a sponsor shall specify the duties of the sponsor which shall be in accordance with the written agreement entered into with the department of education under division (B) of section 3314.015 of the Revised Code and shall include, among other requirements the following:

- Monitor the community school's compliance with all laws applicable to the school and with the terms of the contract; and
- Monitor and evaluate the academic and fiscal performance and the organization and operation of the community school on at least an annual basis.

During fiscal year 2010, Toledo Public Schools, in its capacity as a sponsor to Phoenix Academy, failed to monitor Phoenix Academy in accordance with the aforementioned requirements.

The failure to monitor and evaluate compliance on a timely basis could result in Phoenix Academy being noncompliant with applicable laws, and could have poor academic and/or fiscal performance, which could ultimately result in the closure of the Phoenix Academy.

As a sponsor, Toledo Public Schools should institute a system to evaluate legal, educational, and fiscal performance of Phoenix Academy.

FINDING NUMBER 2010-003

Material Weakness

Posting of Transactions and GAAP Conversion Process

The Academy should have procedures in place to prevent or detect material misstatements for the accurate presentation of the Academy's financial statements and related disclosures. These procedures should include Governing Board review of the Academy's annual financial report and review the Academy's accounting and financial reporting practices.

Errors were identified in posting activities to the Academy's ledgers, and financial statements resulting in several audit adjustments:

- The Trial Balance beginning cash numbers did not agree to the Academy's ledgers for the Foundation Revenues and Non-operating Federal Revenues line items requiring an adjustment for $26,263. The Trial Balance is prepared by the Independent Accounting firm that prepares the Generally Accepted Accounting Principles (GAAP) conversion to recognize accrual accounting.

- Intergovernmental Receivables were overstated by $359,793 due to determining all grant awards that were approved at the beginning of the fiscal year, including ARRA funds, that by fiscal year end were no longer expected to be received.

- The Accounts Payable to Toledo Public Schools (Sponsor) was understated by $428,465 due to an error in the calculation of the liability;

- There were several revisions required to the Notes to Financial Statements and Management's Discussion and Analysis.

The failure to record accurate financial activity on the financial statements and in the notes to the financial statements and lack of appropriate Governing Board review and approval could result in material misstatements and inaccurate financial reporting. The accompanying financial statements and the School's accounting system have been adjusted to correct these errors.

We recommend the Treasurer exercise due care in the calculation and preparation of the financial statements and related note disclosures. Further, we recommend the Academy implement review procedures to detect material financial statement errors, including Governing Board review of the Academy's annual report for erroneous information and inaccurate presentation and classification. The Governing Board should document this review in the minutes.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

PHOENIX ACADEMY
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2009-001	**ORC § 3314.07 (A)** Expiration of contract with Sponsor	No	Partially Corrected, Reissued as 2010-001 in this report.
2009-002	**ORC §3314.03 (D)** Sponsor's monitoring of Community School	No	Not corrected. Reissued as 2010-002 in this report.

Dave Yost • 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
JUNE 14, 2011

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