



Dave Yost • Auditor of State

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

George A. Phillips Academy
Lucas County
4660 S. Haggadorn Road, Suite 500
East Lansing, MI 48823

To the Board of Directors:

We have audited the accompanying basic financial statements of George A. Phillips Academy, Lucas County, Ohio (the Academy), for the period August 25, 2010 through June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of George A. Phillips Academy, Lucas County, Ohio, for the period August 25, 2010 through June 30, 2011, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the accompanying financial statements, the Academy ceased operations on June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2013, 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.

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.

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

Dave Yost
Auditor of State

February 7, 2013

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011**

The management's discussion and analysis of George A. Phillips Academy's financial performance provides an overall review of the Academy's financial activities for the period from August 25, 2010 through June 30, 2011. The intent of this discussion and analysis is to look at the academy's financial performance as a whole; readers should review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets were \$102 in 2011.
- Total assets were \$13,860 in 2011.
- Liabilities were \$13,758 in 2011.

Using this Annual Report

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

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during 2011?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into the account all revenues and expenses during the year, regardless of when cash is received or paid.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011**

Table I provides a summary of the Academy's net assets for the periods August 25, 2010 through June 30, 2011 and July 1, 2010 through August 24, 2010:

| TABLE I | For the period ended | |
|-------------------------------|----------------------|-----------------|
| | June 30, 2011 | August 24, 2010 |
| Assets | | |
| Current Assets | \$ 13,860 | \$ 341,306 |
| Non-Current Assets | | 4,320 |
| Total assets | 13,860 | 345,626 |
| Liabilities | | |
| Current Liabilities | 13,758 | 342,786 |
| Total liabilities | 13,758 | 342,786 |
| Net Assets (Deficit) | | |
| Invested in capital assets | 3,030 | 4,320 |
| Unrestricted | (2,928) | (1,480) |
| Restricted for Other Purposes | | |
| Total net assets (deficit) | \$ 102 | \$ 2,840 |

Total net assets for the Academy decreased \$2,738. Total assets and total liabilities both decreased due to activities related to the liquidation of the Academy.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011**

Table 2 shows the changes in net assets (deficit) for the periods August 25, 2010 through June 30, 2011 and July 1, 2010 through August 24, 2010, as well as a listing of revenues and expenses. Amounts will need to be updated after statements are corrected.

| TABLE 2 | For the period ended | |
|--|----------------------|-----------------|
| | June 30, 2011 | August 24, 2010 |
| Operating Revenues | | |
| Foundation Payments | | \$92,731 |
| Food Services | | |
| Other | \$9,260 | |
| Nonoperating Revenues | | |
| Grants and Refunds | 9,729 | 25,377 |
| Total revenue | 18,989 | 118,108 |
| Operating Expenses | | |
| Purchased Services | | 94,151 |
| Materials and Supplies | 543 | 479 |
| Depreciation (unallocated) | 1,289 | 1,680 |
| Other expenses | 19,895 | 758 |
| Nonoperating Expenses | | |
| Interest | | 244 |
| Total expenses | 21,727 | 97,312 |
| Increase (Decrease) in Net Assets | \$(2,738) | \$20,796 |

Net assets decreased by \$2,738. Purchased Services decreased by \$94,151, mostly due to elimination of staffing expenses as a result of the Academy's close. There were no foundation payments recorded due to the Academy's closing. Other expenses increased due to audit examination fees.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011**

Capital Assets

At the end of fiscal year 2011, the Academy had \$3,030 invested in capital assets (net of depreciation). Table 3 shows capital assets (net of depreciation) as of June 30, 2011 and August 24, 2010.

TABLE 3

| | June 30, 2011 | August 24, 2010 |
|-----------------------------------|-----------------|-----------------|
| Furniture, fixtures and equipment | \$ 3,030 | \$ 4,320 |
| Totals | <u>\$ 3,030</u> | <u>\$ 4,320</u> |

For more information on capital assets, see Note 5 to the basic financial statements.

Current Financial Issues

George A. Phillips Academy was formed in 2003 under a contract with the Ohio Council of Community Schools. Operations were suspended effective August 24, 2010.

Contacting the School's Financial Management

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of George A. Phillips Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

STATEMENT OF NET ASSETS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011

Assets

Current Assets:

| | |
|---------------------------|-----------|
| Cash and Cash Equivalents | \$ 10,830 |
|---------------------------|-----------|

Non-Current Assets:

| | |
|---------------------------------|-------|
| Depreciable Capital Assets, Net | 3,030 |
|---------------------------------|-------|

| | |
|---------------------|---------------|
| <i>Total Assets</i> | <u>13,860</u> |
|---------------------|---------------|

Liabilities

Current Liabilities:

| | |
|---------------------------|--------|
| Intergovernmental Payable | 13,758 |
|---------------------------|--------|

Net Assets

| | |
|---|-------|
| Invested in Capital Assets, Net of Related Debt | 3,030 |
|---|-------|

| | |
|--------------|----------------|
| Unrestricted | <u>(2,928)</u> |
|--------------|----------------|

| | |
|-------------------------|---------------|
| <i>Total Net Assets</i> | <u>\$ 102</u> |
|-------------------------|---------------|

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011

Operating Revenues

| | |
|-----------------------------------|----------|
| Other Revenue - Intergovernmental | \$ 9,260 |
|-----------------------------------|----------|

Operating Expenses

| | |
|------------------------|-----|
| Materials and Supplies | 543 |
|------------------------|-----|

| | |
|--------------|-------|
| Depreciation | 1,289 |
|--------------|-------|

| | |
|-------|--------|
| Other | 19,895 |
|-------|--------|

| | |
|---------------------------------|---------------|
| <i>Total Operating Expenses</i> | <u>21,727</u> |
|---------------------------------|---------------|

| | |
|-----------------------|-----------------|
| <i>Operating Loss</i> | <u>(12,467)</u> |
|-----------------------|-----------------|

Non-Operating Revenues and Expenses

| | |
|--------------------|--------------|
| Grants and Refunds | <u>9,729</u> |
|--------------------|--------------|

| | |
|-----------------------------|---------|
| <i>Change in Net Assets</i> | (2,738) |
|-----------------------------|---------|

| | |
|-------------------------------------|--------------|
| <i>Net Assets Beginning of Year</i> | <u>2,840</u> |
|-------------------------------------|--------------|

| | |
|-------------------------------|----------------------|
| <i>Net Assets End of Year</i> | <u><u>\$ 102</u></u> |
|-------------------------------|----------------------|

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

| | |
|---|-----------------|
| Cash Received from Other Operating Revenues | \$ 9,260 |
| Cash Payments to Suppliers for Goods and Services | <u>(36,965)</u> |
| <i>Net Cash Used for Operating Activities</i> | <u>(27,705)</u> |

Cash Flows from Noncapital Financing Activities:

| | |
|--|------------------|
| Grants and Refunds | 796 |
| Principal Payments | (300,000) |
| Interest Payments | (244) |
| Tax Refund | 14,882 |
| Proceeds of Short Term Loans | 7,700 |
| Repayment of Short-Term Loans | <u>(7,700)</u> |
| <i>Net Cash Used for Noncapital Financing Activities</i> | <u>(284,566)</u> |

Net decrease in Cash and Cash Equivalents (312,271)

Cash and Cash Equivalents at Beginning of Year 323,101

Cash and Cash Equivalents at End of Year \$ 10,830

(Continued)

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)

**Reconciliation of Operating Loss to Net
Cash Used by Operating Activities:**

| | |
|---|---------------------------|
| Operating Loss | \$ (12,467) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities | |
| Depreciation | 1,289 |
| Changes in Assets and Liabilities: | |
| Decrease in Accounts Receivable | 9,730 |
| Decrease in Intergovernmental Receivable | 4,672 |
| (Decrease) in Accounts Payable | (8,105) |
| (Decrease) in Other Current Liabilities | (10) |
| (Decrease) in STRS-SERS Payable | (257) |
| (Decrease) in Accrued Wages Payable | (5,000) |
| (Decrease) in Contracts Payable | <u>(17,557)</u> |
| <i>Total Adjustments</i> | <u>(15,238)</u> |
| <i>Net Cash Provided by Operating Activities</i> | <u><u>\$ (27,705)</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

George A. Phillips 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 kindergarten through eighth.

On April 2, 2003, the Academy was approved for operation under contract with the Ohio Council of Community Schools (the "Sponsor") for a period of five years through June 30, 2007. The contract has since been renewed for a period of seven years through June 30, 2014. Effective August 24, 2010, the Sponsor suspended the contract with the Academy and the Academy was closed as of June 30, 2011. 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 board of directors, which is also the governing board for another The Leona Group, LLC-managed school. The board of directors 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 has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its Academy. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel, and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

C. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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 the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received by the Academy are maintained in a bank account in the Academy's name. Monies for the Academy are maintained in this account or temporarily used to purchase short-term investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011 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 the services are consumed. There were no prepaid items at June 30, 2011.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$1,000 for furniture and equipment, land, and buildings, or any one item costing under \$1,000 alone but purchased in a group for over \$2,500. Software costing more than \$10,000 per application is also capitalized. 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 except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|-----------------------------------|---------|
| Furniture, Fixtures and Equipment | 7 years |
| EDP Equipment and Software | 3 years |
| Non-EDP Equipment | 6 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 creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net 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. 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. 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

The Academy has designated one bank for the deposit of its funds. The Academy's deposits consist solely of checking and/or savings accounts at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is not subject to custodial credit risk.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)**

4. RECEIVABLES

There were no receivables at June 30, 2011.

5. CAPITAL ASSETS

Capital asset activity for the period August 25, 2010 through June 30, 2011:

| | Balance 8/24/2010 | Additions | Deletions | Balance 6/30/11 |
|------------------------------------|----------------------|----------------|-----------------|--------------------|
| Capital Assets Being Depreciated | | | | |
| Furniture, Fixtures, and Equipment | 206,440 | | 84,282 | 122,158 |
| Educational Media | 13,185 | | | 13,185 |
| Total Capital Assets | | | | |
| Being Depreciated | <u>219,625</u> | <u>-</u> | <u>84,282</u> | <u>135,342</u> |
| Less Accumulated Depreciation: | | | | |
| Furniture, Fixtures, and Equipment | (202,796) | (1,289) | (84,282) | (119,803) |
| Educational Media | (12,509) | - | | (12,509) |
| Total Accumulated Depreciation | <u>(215,305)</u> | <u>(1,289)</u> | <u>(84,282)</u> | <u>(132,313)</u> |
| Capital Assets, Net of A/D | <u>4,320</u> | <u>(1,289)</u> | <u>-</u> | <u>3,030</u> |

6. RISK MANAGEMENT

A. Property and Liability

All policies were terminated effective August 24, 2010.

B. Workers' Compensation

Workers' compensation coverage was terminated effective August 24, 2010.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)**

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 2011, 11.81 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the period ended August 24, 2010 and fiscal years ended June 30, 2010 and June 30, 2009 were \$64, \$4,533 and \$5,348 respectively; 100 percent has been contributed for all years and periods. There were no required contributions for the period between August 25, 2010 and June 30, 2011 as there was no payroll for that period.

A. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

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 multiplied by a percentage that varies based on years of service, or on an allowance based on a member's lifetime 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 Plan 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2011, 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 period ended August 24, 2010 and fiscal years ended June 30, 2010 and June 30, 2009 were \$3,432, \$22,768 and \$30,285 respectively; 100 percent has been contributed for all years and periods. There were no required contributions for the period between August 25, 2010 and June 30, 2011 as there was no payroll for that period.

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 Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, OH 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 the period August 25, 2010 through June 30, 2011 there were no allocations to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For the period August 25, 2010 through June 30, 2011 there was no surcharge.

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 required contributions for health care for the period ended August 24, 2010 and fiscal years ended June 30, 2010 and June 30, 2009 were \$3,432, \$22,768 and \$30,285 respectively; 100 percent has been contributed for all years and periods. There were no required contributions for the period between August 25, 2010 and June 30, 2011.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the period ended August 24, 2010 and fiscal years ended June 30, 2010 and 2009 were \$4, \$270 and \$441 respectively; 100 percent has been contributed for all years and periods. There were no required contributions for the period August 25, 2010 through June 30, 2011 as there was no payroll for that period.

B. State Teachers Retirement System

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.

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 2011, 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 period ended August 24, 2010 and fiscal years ended June 30, 2010 and 2009 were \$264, \$1,751, and \$2,330 respectively; 100 percent has been contributed for all years and periods. There were no required contributions for the period August 25, 2010 through June 30, 2011 as there was no payroll for that period.

9. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2011.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. The results of the review of fiscal year 2011 is not available at this time.

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011
(Continued)**

10. OPERATING LEASES

There were no lease obligations during the period due to the closure of the Academy on August 24, 2010.

11. NOTES PAYABLE

Debt Activity during the period August 25, 2010 through June 30, 2011 was as follows:

| | Balance at 08/24/10 | Additions | Reductions | Balance at 06/30/11 |
|-------------------------------|------------------------|-----------|------------|------------------------|
| Note Payable-Charter One Bank | \$ 300,000 | \$ - | \$ 300,000 | \$ - |

In August 2010, the Academy borrowed \$300,000 in a state aid note. The note bore interest at a variable annual interest rate equal to the prime rate, adjusted monthly. The effective rate was 3.25 percent at August 24, 2010 and the note was paid in full on August 26, 2010.

12. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. The management agreement was renewed effective July 13, 2007 for a period of seven years to continue through June 30, 2014. The contract was terminated on August 24, 2010 due to the closure of the Academy.

13. SUBSEQUENT EVENT

The remaining capitalized assets and other equipment of the Academy were donated or sold at auction. Equipment that was determined to have been purchased with Federal Funds were donated to another TLG-managed academy, and other assets, equipment and materials were sold at auction to another TLG-managed academy on July 15, 2011.

As of the date of the report, the Academy had a cash balance of \$10,830. All payables and receivable outstanding June 30, 2011 have been paid and received, Total expenditures and cash receipts subsequent to year end through the report date were \$7,204 and \$3,000 respectively. Once all liabilities are liquidated, any cash balance will be returned to ODE as required by ORC 3313.074.



Dave Yost • Auditor of State

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

George A. Phillips Academy
Lucas County
4660 S. Haggadorn Road, Suite 500
East Lansing, MI 48823

To the Board of Directors:

We have audited the basic financial statements of George A. Phillips Academy, Lucas County, Ohio (the Academy), for the period August 25, 2010 through June 30, 2011, and have issued our report thereon dated February 7, 2013, wherein we noted the Academy ceased operations as of June 30, 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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

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 an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as finding 2011-001.

George A. Phillips Academy
Lucas County
Independent Accountants' report on Internal Control Over
Financial Reporting and On Compliance and Other
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, Ohio Council of Community Schools, and others within the Academy. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 7, 2013

**GEORGE A. PHILLIPS ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2011**

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

FINDING NUMBER 2011-001

Noncompliance Citation

Ohio Revised Code, § 3314.074(A), states If any community school established under this chapter permanently closes and ceases its operation as a community school, the assets of that school shall be distributed first to the retirement funds of employees of the school, employees of the school, and private creditors who are owed compensation and then any remaining funds shall be paid to the department of education for redistribution to the school districts in which the students who were enrolled in the school at the time it ceased operation were entitled to attend school under section 3313.64 or 3313.65 of the Revised Code. The amount distributed to each school district shall be proportional to the district's share of the total enrollment in the community school.

George A. Phillips Academy was officially closed by their sponsor, the Ohio Council of Community Schools on June 30, 2011. Computer equipment and other miscellaneous equipment totaling \$85,897 were not disposed of in accordance with the above cited Ohio Revised Code Section. The computer equipment consisted of: 52 laptops totaling \$47,586; wireless labs totaling \$28,548; and 10 computers totaling \$455. The miscellaneous equipment unaccounted for totaled \$9,308. Per inquiry with Don M. Ash, the Academy's Finance Director, no investigation was performed nor was a police report filed regarding the missing assets. The Academy was unable to otherwise determine how the assets were disposed of.

As part of the audit procedures, the Auditor of State made inquiries with the Leona Group, LLC (Academy's management company) and Ohio Council of Community Schools to attempt to locate the missing assets. The Leona Group asserted that some of the missing assets may have been donated to another Leona Group community school, Lake Erie Academy.

On August 27, 2012, the Auditor of State visited Lake Erie Academy Junior High to determine whether the school had received any assets from George A. Phillips Academy. The Auditor of State was unable to confirm whether Lake Erie Academy was in possession of any of the missing assets from George A. Phillips Academy.

Officials' Response:

We did not receive a response from Officials to this finding.

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GEORGE A. PHILLIPS 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
FEBRUARY 26, 2013**