

**George A. Phillips Academy  
Lucas County**

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**Financial Report  
June 30, 2007**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
George A. Phillips Academy  
4660 S. Hagadorn Rd.  
Suite 500  
East Lansing, MI 48823

We have reviewed the *Independent Auditor's Report* of the George A. Phillips Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The George A. Phillips Academy is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 11, 2007

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# **George A. Phillips Academy Lucas County**

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## Independent Auditor's Report

To the Board of Directors  
George A. Phillips Academy

We have audited the accompanying basic financial statements of George A. Phillips Academy (the "Academy") as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2007 and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors  
George A. Phillips Academy

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

November 9, 2007

Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Board of Directors  
George A. Phillips Academy

We have audited the basic financial statements of George A. Phillips Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered George A. Phillips Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of George A. Phillips Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of George A. Phillips 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following control deficiency to be a significant deficiency in internal control over financial reporting:

- I. The Academy has entered into a management agreement that states that management fees are 12 percent of total revenue. The Academy did not record management fees related to the revenue receivable at June 30, 2007. An adjusting journal entry was proposed and recorded to increase management fee expense and the related accrual by \$3,981. Total expenses and liabilities would have been understated had the adjustment not been made. In order to prevent and detect such misstatements from occurring, we recommend that the accounting personnel recalculate management fees expense from the amount of revenue recorded on the final trial balance.



To the Board of Directors  
George A. Phillips Academy

2. The Academy moved out of one of its facilities and discontinued rent payments during the year ended June 30, 2007. Prepaid rent was not removed from the accounting records prior to the audit of the financial statements, resulting in an audit adjustment of \$4,500 to increase rent expense and decrease prepaid rent. In order to prevent and detect such misstatements from occurring in the future, we recommend that the accounting personnel review the prepaid rent payments for accuracy annually.
3. Bonuses should be recorded as an expense in the year the bonuses were earned. The Academy mistakenly recorded the current year bonus accrual twice. An adjustment to decrease the expense and the accrual for \$1,018 is included in the summary of unrecorded possible adjustments. Currently, total expenses and liabilities are overstated by this amount. We recommend that someone other than the person recording the entry review the detail of the accruals to ensure that they are properly recorded and the balances are accurate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the following significant deficiency is a material weakness:

- The Academy moved out of one of its facilities, abandoning its leasehold improvements. SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, requires the removal of abandoned assets from the accounting records. The leasehold improvements were not removed from the accounting records prior to the audit of the financial statements, resulting in an audit adjustment of \$34,896 to depreciation expense and the removal of \$56,645 of leasehold improvements recorded at historical cost. In order to prevent and detect such misstatements from occurring in the future, we recommend that the accounting personnel review all significant agreements entered into by the Academy and be updated on significant operating events of the Academy to ensure the financial effects, if any, are properly reflected in the accounting records.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether George A. Phillips Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

To the Board of Directors  
George A. Phillips Academy

- Ohio Revised Code Section 3314.03A states that community schools established prior to April 8, 2003 must be nonprofit corporations under ORC 1702. The community school was established prior to April 8, 2003 and was subsequently denied nonprofit status under Section 501(c)(3) under the Internal Revenue Code because of the previous board of director's relationship with the management company. The board was recently reorganized in order to comply with the provisions for nonprofit status. Actions have since been taken to obtain nonprofit status. In addition, Ohio Revised Code Section 3314.082 prohibits community schools from using foundation money to pay taxes, including federal, state, and local income taxes, sales taxes, and personal and real property taxes. However, the Academy's for-profit status requires it to pay income taxes. We recommend that the Academy continue to monitor and follow-up on any issues related to obtaining nonprofit status.

We also noted certain immaterial instances of noncompliance and other matters that we have reported to the management of George A. Phillips Academy in a separate letter dated November 9, 2007.

This report is intended for the information and use of management, the board of directors, the sponsor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

November 9, 2007

# **George A. Phillips Academy Lucas County**

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## **Management's Discussion and Analysis**

The management's discussion and analysis of George A. Phillips Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, 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 decreased \$59,055, which represents a 31 percent decrease from 2006. This decrease was due primarily to a decrease in federal revenue and a disproportionate decrease in expenses.
- Total assets decreased \$294,450, which represents a 60 percent decrease from 2006. This decrease was primarily due to the decrease in net capital assets due to depreciation.
- Liabilities decreased \$235,395, which represents a 77 percent decrease from 2006. This decrease was due to the decrease in accounts payable and contracts payable due at the end of the fiscal year.

### **Using this Financial Report**

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

### **Statement of Net Assets**

The statement of net assets answers the question, "how did we do financially during 2007?" 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 account all revenues and expenses during the year, regardless of when the cash is received or paid.

**George A. Phillips Academy  
Lucas County**

**Management's Discussion and Analysis (Continued)**

Table I provides a summary of the Academy's net assets for fiscal years 2007 and 2006:

TABLE I	Governmental Activities	
	June 30	
	2007	2006
<b>Assets</b>		
Current assets	\$ 133,086	\$ 336,789
Capital assets - Net	64,870	155,617
Total assets	197,956	492,406
<b>Liabilities - Current</b>	68,568	303,963
<b>Net Assets</b>		
Invested in capital assets	64,870	155,617
Unrestricted	64,518	32,826
Total net assets	<u>\$ 129,388</u>	<u>\$ 188,443</u>

Total assets decreased \$294,450. This was primarily due to the depreciation of capital assets. Cash decreased by \$146,000 from 2006. Intergovernmental receivables decreased by \$38,203. This decrease was due primarily to the decrease in federal funding. Capital assets, net of depreciation, decreased by \$90,747 primarily due to the depreciation of furniture, fixtures, equipment, library books, and leasehold improvements, and a write-off of \$56,645 of leasehold improvements that were deemed to be impaired due to the Academy relocating to a different facility during 2007.

# George A. Phillips Academy Lucas County

## Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets for fiscal years 2007 and 2006, as well as a listing of revenues and expenses.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2007	2006
<b>Operating Revenues</b>		
Foundation payments	\$ 1,170,430	\$ 1,514,360
Disadvantaged Pupil Impact Aid	219,755	224,133
Other	15,426	7,930
<b>Nonoperating Revenues</b>		
Federal grants	271,776	522,678
State grants	12,225	9,010
Total revenues	1,689,612	2,278,111
<b>Operating Expenses</b>		
Salaries	607,292	767,699
Fringe benefits	221,172	254,074
Purchased services	741,698	940,970
Materials and supplies	28,167	133,733
Depreciation (unallocated)	105,419	44,798
Other expenses	2,387	4,692
<b>Nonoperating Expenses - Taxes</b>	42,532	66,825
Total expenses	1,748,667	2,212,791
<b>(Decrease) Increase in Net Assets</b>	<b>\$ (59,055)</b>	<b>\$ 65,320</b>

Net assets decreased by \$59,055. There was a decrease in revenues of \$588,499 and a decrease in expenses of \$464,124 from 2006. Of the decrease in revenues, the foundation payments decreased by \$343,930 and federal grant revenue decreased by \$250,902. Community schools receive no support from tax revenues.

# George A. Phillips Academy Lucas County

## Management's Discussion and Analysis (Continued)

The expense for salaries decreased by \$160,407 and the expense for fringe benefits decreased by \$32,902 from 2006; this was primarily due to a decrease in staff during fiscal year 2007. Material and supplies expense decreased by \$105,566 from 2006 due to the decrease in federal grant revenue from the Charter School Grant. Depreciation expense increased by \$60,621.

### Capital Assets

At the end of fiscal year 2007, the Academy had \$72,545 invested in leasehold improvements and furniture, fixtures, and equipment, which represented a decrease of \$83,072 from 2006. Table 3 shows the capital assets (net of depreciation) for fiscal years 2007 and 2006:

TABLE 3	2007	2006
Leasehold improvements	\$ -	\$ 40,528
Furniture, fixtures, and equipment	312,526	115,089
Total capital assets	<b>\$ 312,526</b>	<b>\$ 155,617</b>

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. During the 2006-2007 school year, there were 191 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2007 amounted to \$1,390,185.

### Contacting the School's Financial Management

This 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](mailto:don.ash@leonagroup.com).

# George A. Phillips Academy Lucas County

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## Statement of Net Assets June 30, 2007

### Assets

#### Current assets:

Cash (Note 3)	\$ 87,801
Intergovernmental receivables (Note 4)	34,094
Prepaid expenses	<u>11,191</u>

Total current assets 133,086

Noncurrent assets - Depreciable capital assets - Net (Note 5) 64,870

Total assets 197,956

### Liabilities - Current

Accounts payable	10,724
Contracts payable (Note 13)	<u>57,844</u>

Total liabilities 68,568

### Net Assets

Invested in capital assets - Net of related debt	64,870
Unrestricted	<u>64,518</u>

Total net assets \$ 129,388

# George A. Phillips Academy Lucas County

## Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2007

<b>Operating Revenues</b>	
Foundation payments	\$ 1,170,430
Disadvantaged Pupil Impact Aid	219,755
Other revenues	<u>15,426</u>
Total operating revenues	1,405,611
<b>Operating Expenses</b>	
Salaries	607,292
Fringe benefits	221,172
Purchased services (Note 10)	741,698
Materials and supplies	28,167
Depreciation	105,419
Other	<u>2,387</u>
Total operating expenses	<u>1,706,135</u>
<b>Operating Loss</b>	(300,524)
<b>Nonoperating Revenues (Expenses)</b>	
Federal grants	271,776
State grants	12,225
Federal and state taxes	<u>(42,532)</u>
Total nonoperating revenues	<u>241,469</u>
<b>Change in Net Assets</b>	(59,055)
<b>Net Assets - Beginning of year</b>	<u>188,443</u>
<b>Net Assets - End of year</b>	<u><u>\$ 129,388</u></u>



# George A. Phillips Academy Lucas County

## Statement of Cash Flows Year Ended June 30, 2007

### Cash Flows from Operating Activities

Received from foundation payments	\$ 1,170,430
Received from Disadvantaged Pupil Impact Aid	219,755
Received from other operating revenues	15,426
Payments to suppliers for goods and services	(665,044)
Payments to employees for services	(956,645)
Payments for employee benefits	<u>(221,172)</u>
Net cash used in operating activities	(437,250)

### Cash Flows from Noncapital Financing Activities

Federal grants received	321,229
State grants received	12,225
Federal and state taxes	<u>(42,532)</u>
Net cash provided by noncapital financing activities	290,922

### Cash Flows from Capital and Related Financing Activities

Reimbursement of deposit made for capital acquisitions	15,000
Payments for capital acquisitions	<u>(14,672)</u>
Net cash provided by capital and related financing activities	<u>328</u>

**Net Decrease in Cash** (146,000)

**Cash - Beginning of year** 233,801

**Cash - End of year** \$ 87,801

# George A. Phillips Academy Lucas County

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## Statement of Cash Flows (Continued) Year Ended June 30, 2007

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (300,524)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	105,419
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(11,250)
Decrease in prepaid expenses	4,500
Decrease in accounts payable	(96,529)
Decrease in contracts payable	<u>(138,866)</u>
Total adjustments	<u>(136,726)</u>
Net cash used in operating activities	<u><u>\$ (437,250)</u></u>

# **George A. Phillips Academy Lucas County**

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## **Notes to Financial Statements June 30, 2007**

### **Note 1 - Description of the School 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. The Academy's mission is to provide an atmosphere where students will develop a thirst for learning, creative expression, and awareness of new horizons. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, and social interactions. Staff, students, and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

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. 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 total Sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2007 were approximately \$42,000.

The Academy operates under the direction of a five-member board of directors who also is the governing board for one other The Leona Group-managed schools (see Note 12). 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 board of directors controls the Academy's instructional/support facility staffed by 10 certificated full-time teaching personnel who provide services to 191 students.

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 (see Note 13).

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of George A. Phillips Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 provided they do not conflict with or contradict GASB pronouncements. The Academy has elected to also follow private sector guidance issued after November 30, 1989 for its business-type activities. The more significant of the Academy's accounting policies are described below.

**Basis of Presentation** - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income are appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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.

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

**Basis of Accounting** - The 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.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**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 contract between the Academy and the Sponsor. The contract between the Academy and the Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

**Intergovernmental Receivable** - Receivables at June 30, 2007 consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

**Prepaid Expenses** - Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**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 will also be capitalized. 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 capitalized.

# George A. Phillips Academy Lucas County

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## Notes to Financial Statements June 30, 2007

### Note 2 - Summary of Significant Accounting Policies (Continued)

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:

Leasehold improvements	2-5 years
Furniture, fixtures, and equipment	3-7 years

**Net Assets** - Net assets represent the difference between assets and liabilities. Invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt related to capital assets.

**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 service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as nonoperating.

**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.

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

**Tax Status** - The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 2006 and has filed for an extension for fiscal year 2007. Amounts owed to the IRS and the State of Ohio at June 30, 2007 are reported on the statement of net assets as taxes payable, if significant.

# George A. Phillips Academy Lucas County

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## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits

The Academy has designated two banks 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 subject to custodial credit risk.

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$109,750 had \$9,642 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Intergovernmental Receivables

Receivables at June 30, 2007 consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables is as follows:

Title I	\$	18,161
Special Education, Part B		2,502
Other		<u>13,431</u>
Total all intergovernmental receivables	\$	<u><u>34,094</u></u>

**George A. Phillips Academy  
Lucas County**

**Notes to Financial Statements  
June 30, 2007**

**Note 5 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Disposals	Balance June 30, 2007
<b>Business-type Activity</b>				
Capital assets being depreciated:				
Leasehold improvements	\$ 41,973	\$ 14,672	\$ (56,645)	\$ -
Furniture, fixtures, and equipment	<u>188,698</u>	<u>-</u>	<u>-</u>	<u>188,698</u>
Total capital assets being depreciated	230,671	14,672	(56,645)	188,698
Less accumulated depreciation:				
Leasehold improvements	1,445	55,200	(56,645)	-
Furniture, fixtures, and equipment	<u>73,609</u>	<u>50,219</u>	<u>-</u>	<u>123,828</u>
Total accumulated depreciation	<u>75,054</u>	<u>105,419</u>	<u>(56,645)</u>	<u>123,828</u>
Total capital assets being depreciated - Net	<u>\$ 155,617</u>	<u>\$ (90,747)</u>	<u>\$ -</u>	<u>\$ 64,870</u>

**Note 6 - Risk Management**

**Property and Liability** - The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Academy contracted with Employers Mutual Casualty Company for general liability, property insurance, and educational errors and omissions insurance. Settled claims relating to insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.



# George A. Phillips Academy Lucas County

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## Notes to Financial Statements June 30, 2007

### Note 6 - Risk Management (Continued)

Coverages are as follows:

Educational errors and omissions:

Per occurrence	\$ 8,000,000
Total per year	8,000,000

General liability:

Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	1,000,000

**Workers' Compensation** - The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

### Note 7 - Defined Benefit Pension Plans

#### School Employees' Retirement System

The Academy contributes to the School Employees' Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the School Employees' Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853, or by visiting the SERS Ohio Website at [www.ohsers.org](http://www.ohsers.org).

# **George A. Phillips Academy Lucas County**

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## **Notes to Financial Statements June 30, 2007**

### **Note 7 - Defined Benefit Pension Plans (Continued)**

Plan members are required to contribute 10 percent of their annual covered salaries 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 healthcare benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' retirement board. The Academy's required contributions for pension obligations to SERS for the years ended June 30, 2007, 2006, and 2005 were \$9,047, \$11,620, and \$10,897, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for each of the fiscal years ended June 30, 2007, 2006, and 2005.

#### **State Teachers Retirement System**

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times 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 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 a defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as June 30, 2001 were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

# **George A. Phillips Academy Lucas County**

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## **Notes to Financial Statements June 30, 2007**

### **Note 7 - Defined Benefit Pension Plans (Continued)**

A DB or Combined Plan member with five or more years of 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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$66,646, \$79,684, and \$71,910, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for each of the fiscal years ended June 30, 2007, 2006, and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$77,426 made by the Academy and \$55,429 made by the plan members.

### **Note 8 - Postemployment Benefits**

The Academy provides comprehensive healthcare benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired noncertificated employees and their dependents through the School Employees' Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the systems based on authority granted by state statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for healthcare coverage. The STRS Ohio Board has statutory authority over how much, if any, of the healthcare cost will be absorbed by STRS Ohio.

**Note 8 - Postemployment Benefits (Continued)**

All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount totaled \$5,127 for fiscal year 2007.

STRS Ohio pays healthcare benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the fund was \$3.5 billion. For the year ended June 30, 2006, net healthcare costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their healthcare premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing healthcare benefits. For the fiscal year ended June 30, 2007, employer contributions to the fund healthcare benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Academy, the amount contributed to fund healthcare benefits, including the surcharge, during the 2007 fiscal year totaled \$2,812.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the Healthcare Fund. The target level for the healthcare reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of healthcare benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**Note 9 - Contingencies**

**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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

**State Funding** - The Ohio Department of Education reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2007, the results of this review are not concluded. However, in the opinion of management, any changes to enrollment data will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

**Lawsuit** - A lawsuit was filed against numerous parties, including the Academy. At this time, the Academy's legal counsel is unable to state whether an unfavorable outcome is likely. There is no current estimate of potential losses in excess of insurance coverage in the event that the outcome is unfavorable.

# George A. Phillips Academy Lucas County

## Notes to Financial Statements June 30, 2007

### Note 10 - Purchased Service Expenses

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	\$	12,586
Legal		4,001
Insurance		25,898
Advertising		6,386
Dues and fees		4,029
Ohio Council of Community Schools		41,706
The Leona Group, LLC (Note 13)		202,753
Cleaning services		2,318
Utility		43,489
Other professional services		191,686
Other rentals and leases		18,556
Building lease agreements		<u>188,290</u>
Total purchased services	\$	<u>741,698</u>

### Note 11 - Operating Leases

Through June 2007, the Academy had a lease that began on July 1, 2005 with the Fraternal Order of Police Toledo Lodge #40 to lease a building for the middle school campus. Payments made totaled \$54,000 for the fiscal year. On June 23, 2007, the lease and any obligations arising from the lease were assigned to Toledo Preparatory Academy, a nonprofit corporation managed by The Leona Group, LLC.

The Academy has entered into a lease for the period from July 1, 2003 through June 30, 2008 with the Diocese of Toledo to lease the facilities of St. Jude Parish. Payments made totaled \$134,290 for the fiscal year. The building which houses the Academy is owned by the Bishop of the Diocese of Toledo. The Academy has the option to renew the lease at an inflation-adjusted rate at the end of the contract period.

# George A. Phillips Academy Lucas County

## Notes to Financial Statements June 30, 2007

### Note 11 - Operating Leases (Continued)

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2007:

Fiscal Year Ending <u>June 30</u>	<u>Facility Lease</u>
2008	<u>\$ 143,199</u>

### Note 12 - Related Parties

Through February 2007, the Academy's governing board consisted of the same members as the governing boards for Paul Laurence Dunbar Academy, Eagle Academy, Toledo Preparatory Academy, Lake Erie Academy, and Wildwood Environmental Academy. Beginning in March 2007, the Academy's board consists of the same members as the governing board for Lake Erie Academy.

### Note 13 - 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. In exchange for its services, TLG receives a capitation fee of 12 percent of the per pupil expenditures and a year-end fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The Academy incurred management fees totaling \$202,753 for the year ended June 30, 2007. At June 30, 2007, contracts payable include \$3,981 for the payment of management fees and \$53,863 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require TLG to provide the following:

- Implementation and administration of the educational program
- Management of all personnel functions, including professional development
- Operation of the school building and the installation of technology integral to school design
- All aspects of the business administration of the Academy
- The provision of food service for the Academy
- Any other function necessary or expedient for the administration of the Academy

# George A. Phillips Academy Lucas County

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## Notes to Financial Statements June 30, 2007

### Note 13 - Management Agreement (Continued)

The Academy may terminate this agreement with cause prior to the end of the term in the event that The Leona Group, LLC should fail to remedy a material breach within a period reasonable under the circumstances, but not less than 60 days after notice from the Academy.

The Leona Group, LLC may terminate this agreement with cause prior to the end of the specified term in the event the Academy fails to remedy a material breach within a period reasonable under the circumstances, but not less than 60 days after notice from The Leona Group, LLC.

In the event this agreement is terminated by either party prior to the end of the specified term, the termination will not become effective until the end of the school year following the notice of termination and The Leona Group, LLC shall provide the Academy reasonable assistance for up to 90 days to assist in the transition to a regular school program.

For the year ended June 30, 2007, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:

Salaries	\$ 607,292
Fringe benefits	221,172
Professional and technical services	66,748
Other direct costs	<u>19,226</u>
Total direct expenses	<u>\$ 914,438</u>





**Mary Taylor, CPA**  
Auditor of State

**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  
DECEMBER 24, 2007**