PHOENIX ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

PHOENIX ACADEMY
LUCAS COUNTY

TABLE OF CONTENTS

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Academy
Lucas County
2238 Jefferson Avenue
Toledo, Ohio 43604-7120

To the Governing Board:

We have audited the accompanying basic financial statements of Phoenix Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 7, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The discussion and analysis of the Phoenix Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 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 notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were $4,874,712.
- Total Liabilities were $3,853,334.
- Total Change in Net Assets was $339,940.

Using this Annual Financial Report

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

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services. Unrestricted state aid and state and federal grants finance most of these activities.

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 considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1
Net Assets

	2007	2006
Assets		
Current Assets	$ 4,813,782	$ 5,768,653
Security Deposit	2,292	2,292
Capital Assets, Net	58,638	27,412
Total Assets	4,874,712	5,798,357
Liabilities		
Current Liabilities	3,853,334	5,116,919
Total Liabilities	3,853,334	5,116,919
Net Assets		
Invested in Capital Assets, Net of Related Debt	58,638	27,412
Restricted for Grants	1,396	5,830
Unrestricted	961,344	648,196
Total Net Assets	$ 1,021,378	$ 681,438

Total assets decreased by $923,645, which represents a 15.9 percent decrease from fiscal year 2006. While cash and cash equivalents increased by $366,168, total receivables decreased by $1,079,824. Total liabilities decreased by $1,263,585, which represents a 24.7 decrease from 2006. Amounts payable to Toledo Public Schools has decreased by $949,219. The Academy's net assets increased by $339,940, due to a 6.6 percent increase in State Foundation payments, and a 5.1% decrease in expenditures.

Table 2 shows the changes in net assets for fiscal year 2007 as compared to fiscal year 2006.

Table 2
Change in Net Assets

	2007	2006
Revenues		
Operating Revenues:		
Foundation Payments	$ 4,819,504	$ 4,725,670
Disadvantaged Pupil Impact Aid		
Poverty Based Assistance	142	12,389
Special Education	411,870	148,833
Classroom Fees	132,468	109,979
Extracurricular Activities		
Other Operating Revenues	86,837	9,604
Non-Operating Revenues:		
Federal and State Grants	141,127	25,943
Contributions and Donations	582	
Interest	320,212	153,752
Transfer from Brigadoon Net Assets		393,609
Transfer from Brigadoon Net Payables		784,004
Total Revenues	5,912,742	6,363,783
Expenses		
Operating Expenses		
Salaries	94,466	17,612
Fringe Benefits	10,305	11,698
Purchased Services	5,308,092	5,586,833
Materials and Supplies	93,045	201,685
Depreciation	10,414	1,925
Other Expenses	56,480	49,987
Total Expenses	5,572,802	5,869,740
Increase in Net Assets	$ 339,940	$ 494,043

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

There was a decrease in total revenues of $451,041, and a decrease in total expenses of $296,938 from fiscal year 2006. By excluding the 2006 Transfers from Brigadoon, revenues have increased by $726,572 due primarily to increases in Special Education, Federal and State Grants, and Interest.

The expense for purchased services decreased by $278,741 from fiscal year 2006. Material and supplies expense decreased by $108,640.

Capital Assets

At the end of fiscal year 2007, the Academy had $58,638 (net of $12,339 in accumulated depreciation) invested in furniture and equipment. The Academy's asset capitalization minimum is $5,000. Table 3 shows fiscal year 2007 balances compared to fiscal year 2006 (See Note 5):

Table 3
Capital Asset at June 30, 2007
(Net of Depreciation)

	2007	2006
Furniture, Fixtures, and Equipment	$ 58,638	$ 27,412
Totals	$ 58,638	$ 27,412

Current Financial Issues

The Academy was formed in 2003 sponsored by Toledo Public Schools. During the 2006-2007 school year, there were approximately 708 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2007 amounted to $5,403 per student. The Academy receives most of its finances from state aid.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Rose Butler, Treasurer of Phoenix Academy, 2238 Jefferson Avenue, Toledo, Ohio 43604.

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$ 4,588,255
Intergovernmental Receivables	97,789
Prepaid Items	127,738
Total Current Assets	4,813,782
Non-Current Assets:	
Security Deposits	2,292
Capital Assets, Net of Accumulated Depreciation	58,638
Total Non-Current Assets	60,930
Total Assets	4,874,712
Liabilities:	
Current Liabilities:	
Accounts Payable	10,821
Accounts Payable to Toledo Public Schools	3,715,165
Intergovernmental Payable	127,348
Total Current Liabilities	3,853,334
Net Assets:	
Invested in Capital Assets, Net of Related Debt	58,638
Restricted	1,396
Unrestricted	961,344
Total Net Assets	$ 1,021,378

See Accompanying Notes to the Basic Financial Statements

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:	
Foundation Payments	$ 4,819,504
Poverty Based Assistance	142
Special Education	411,870
Classroom Fees	132,468
Other Operating Revenues	86,837
Total Operating Revenues	5,450,821
Operating Expenses:	
Salaries	94,466
Fringe Benefits	10,305
Purchased Services	5,308,092
Materials and Supplies	93,045
Depreciation	10,414
Other Operating Expenses	56,480
Total Operating Expenses	5,572,802
Operating Loss	(121,981)
Non-Operating Revenues:	
Operating Grants - Federal	135,752
Operating Grants - State	5,375
Contributions and Donations	582
Interest	320,212
Total Non-Operating Revenues and Expenses	461,921
Change in Net Assets	339,940
Net Assets Beginning of Year	681,438
Net Assets End of Year	$ 1,021,378

See Accompanying Notes to the Basic Financial Statements

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 5,750,424
Cash Received from Classroom Fees	132,468
Cash Received from Other Operating Sources	87,179
Cash Payments to Suppliers for Goods and Services	(7,009,362)
Cash Payments to Employees for Services	(94,466)
Cash Payments for Employee Benefits	(2,968)
Net Cash Used for Operating Activities	(1,136,725)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - Federal	40,751
Cash Received from Operating Grants - State	5,375
Cash Received from Contributions and Donations	582
Cash Received from Brigadoon Academy	1,177,613
Net Cash Provided by Noncapital Financing Activities	1,224,321
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(41,640)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	320,212
Net Increase in Cash and Cash Equivalents	366,168
Cash and Cash Equivalents at Beginning of Year	4,222,087
Cash and Cash Equivalents at End of Year	$ 4,588,255

(Continued)

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	$ (121,981)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	10,414
Transfer from Brigadoon Academy	(1,177,613)
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets	
Decrease in Intergovernmental Receivable	1,174,825
Decrease in Prepaid	241,215
Increase (Decrease) in Liabilities:	
Decrease in Accounts Payable	(23,839)
Decrease in Due to Students	(244)
Decrease in Accounts Payable to Toledo Public Schools	(949,219)
Decrease in Intergovernmental Payable	(290,283)
Total Adjustments	(1,014,744)
Net Cash Used for Operating Activities	$ (1,136,725)

See Accompanying Notes to the Basic Financial Statements

PHOENIX ACADEMY
LUCAS COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Phoenix Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve. The Academy is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501c(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was approved for operation under a contract with the Toledo Public Schools (the Sponsor) for a period of five years commencing September 1, 2003. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 5 non-certified and 11 certificated full time teaching personnel who provide services to 708 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

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

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

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction.

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During fiscal year 2007, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

F. Prepaid Items

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

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

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

Description	Estimated Lives
Furniture, Fixtures and Equipment	5 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Basic Aid Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

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

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Security Deposits

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. The security deposit in the amount of $2,292 is held by Toledo Great Eastern Limited, the lessor (See Note 12).

NOTE 3 - DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2007, the carrying amount of the Academy’s deposits was $1,520,424 and the bank balance was $1,572,347. Based on the criteria described in GASB Statement No. 40, “Deposit and Investment Risk Disclosure,” as of June 30, 2007, $100,000 was covered by the Federal Depository Insurance Corporation and $1,472,347 was exposed to custodial credit risk.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

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

The Academy’s investments total $3,067,831 (fair value) that is maintained in a STAR Ohio Account. At June 30, 2007, STAR Ohio received the Standard & Poor’s highest credit rating of AAA.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental receivables arising from grants, entitlement shared revenues and an overpayment to the State Teachers Retirement System. All receivables are considered collectable in full. The following Intergovernmental Receivables consist of the following grants and overpayment:

516	IDEA B	$	93,115
573	Title V Innovative Programs		726
584	Title IV-A Safe & Drug Free School		1,160
	STRS Overpayment		2,788
	Total Intergovernmental Receivable	$	97,789

NOTE 5 - CAPITAL ASSETS

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

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
Capital Assets Being Depreciated				
Furniture, Fixtures and Equipment	$ 29,337	$ 41,640		$ 70,977
Total Capital Assets Being Being Depreciated	29,337	41,640		70,977
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(1,925)	(10,414)		$ (12,339)
Total Accumulated Depreciation	(1,925)	(10,414)		(12,339)
Capital Assets, Net of A/D	$ 27,412	$ 31,226		$ 58,638

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended 2007, the Academy obtained insurance thru broker Hylant Insurance with the following insurance coverage:

Commercial General Liability per Occurrence	$1,000,000
Commercial General Liability Aggregate	3,000,000
Educators Professional Liability	
Per Occurrence	1,000,000
Aggregate	1,000,000
Business Personal Property ($1,000 deductible)	200,000
Excess Liability:	
Limits of Liability	4,000,000

There have been no claims filed.

B. Workers' Compensation

The Academy does not pay directly into the State Worker's Compensation System. All employees are contracted through Toledo Public Schools, which pays the Workers' Compensation System based on their payroll. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS – (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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 a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were $9,981, $1,814 and $1,176 respectively; 11.4 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

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

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS – (Continued)

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 Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were $196,978, $105,894, and $70,135 respectively; 72.8 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were $143,565 made by the Academy and $102,547 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 8 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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 health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care 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 one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $15,152 for fiscal year 2007.

STRS Ohio pays health care 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 health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

NOTE 8 - POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with ten 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 health care 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 health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care 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 health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $3,939.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care 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 health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 9 - OTHER EMPLOYEE BENEFITS

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

NOTE 10 - MANAGEMENT AGREEMENT

The Academy entered into a contract, effective July 1, 2003, through June 30, 2004, renewable each year up to five years, with Toledo Public Schools (TPS) for educational and financial management services. The Academy renewed the prior contract for fiscal year 2007. Total expenses to TPS were $9,695,794, of which $3,715,165 is recognized as an amount payable to Toledo Public Schools at fiscal year ended June 30, 2007. The total amount consists of Sponsorship fees equal to 3 percent of foundation revenues for $172,513, Fiscal Agent/Management fees equal to 10% of foundation revenues for $575,042, an annual fee of $2,292,941 and the remaining was for purchased services.

The annual fee is paid in the subsequent fiscal year totaling the lesser of: (a) 100 percent of the amount in excess of $500,000 of the unencumbered general operating fund balance, or (b) the amount of that balance that is in excess of the minimum financial amount required to be eligible to sponsor a community school in the State of Ohio (currently $500,000). For the fiscal year ended June 30, 2007, the Academy recognized a liability to TPS for it's general operating fund balance in excess of $500,000 of $2,292,941.

NOTE 10 - MANAGEMENT AGREEMENT – (Continued)

Terms of the contract require TPS to provide the following:

- All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy;
- Implementation and administration of the Educational Program, including the selection of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;
- All personnel functions, including professional development for the Academy principal, all instructional personnel, and support staff;
- All aspects of the business administration of the Academy;
- Transportation and food service for the Academy;
- A projected annual budget prior to each year;
- Detailed statements of all revenues received, from whatever source, and detailed statements of all expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request;
- Annual audits in compliance with state law and regulations' performances, upon request;
- Reports on Academy operations, finances, and students' performances, upon request; and,
- Any Other function necessary or expedient for the administration of the Academy.

NOTE 11 - PURCHASED SERVICES

For the period July 1, 2006, through June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 5,089,884
Property Services	134,652
Travel Mileage/Meeting Expense	6,135
Communications	47,325
Utilities	16,369
Contracted Craft or Trade Services	13,275
Other Purchased Services	452
Total Purchased Services	$ 5,308,092

NOTE 12 - OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into an extended lease for the period August 28, 2006, through August 28, 2007, with the Sponsor to lease space to house the Academy. In fiscal year 2007, expense under the lease for the Academy totaled $115,161 with rent of $115,161 recognized as Payable to Toledo Public Schools at June 30, 2007.

The Academy entered into a lease for 3 years in fiscal year 2006 for 3 years with Pearson Digital Learning for use of NovaNet software. The Academy paid $207,813 for 3 years in advance. As of June 30, 2007, there was an outstanding prepaid in the amount for $121,224.

The Academy entered into a lease for the period September 8, 2005 through September 8, 2008, with Toledo Great Eastern Limited to lease additional space to house the Academy. The lease can be renewed for three additional years. In fiscal year 2007, expense under the lease for the Academy totaled $32,000.

The Academy entered into a lease for the period September 1, 2005, through September 1, 2008, with Joseph Brothers Company, LLC to lease additional space to house the Academy. The lease can be extended. In fiscal year 2007, expense under the lease for the Academy totaled $21,075.

The Academy entered into a lease for the period September 19, 2005, through September 19, 2008, with McCord Plaza Development to lease additional space to house the Academy. The lease can be extended. In fiscal year 2007, expenses under the lease for the Academy totaled $20,235.

NOTE 13 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on any of the financial statements of included herein or on the overall financial position of the Academy at June 30, 2007.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Schools. These reviews are conducted to ensure the Schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2007, the review resulted in a reduction of funding for $114,915. This amount is reflected as an Intergovernmental Payable.

NOTE 13 – CONTINGENCIES – (Continued)

C. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on Phoenix Academy cannot presently be determined.

NOTE 14 – RELATED PARTY TRANSACTIONS

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

Ms. Kuchcinski received $1,750 and Ms. Reasonover received $1,475 in compensation as board members from the Academy.

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

Phoenix Academy
Lucas County
2238 Jefferson Avenue
Toledo, Ohio 43604-7120

To the Governing Board:

We have audited the basic financial statements of Phoenix Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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 over financial reporting 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 significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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

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

We also noted a certain internal control matter that we reported to the Academy's management in a separate letter dated March 7, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 7, 2008

PHOENIX ACADEMY
LUCAS COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

Material Weakness

Invoices and Expenses

The Academy's Contract for Community School, requires the Academy to pay the sponsor, Toledo Public Schools, for services and reimbursement of necessary costs incurred to operate the Academy, on a quarterly/monthly basis, sponsorship, management fees, and excess cash balances according to amounts stipulated in the contract. We identified the following weaknesses in paying fees and reimbursements to Toledo Public Schools:

- Each of the payments made to Toledo Public Schools were paid greater than thirty days and up to 3 months past the invoice date.
- Sponsorship, Management fees, and excess cash balances, that the Academy is obligated to pay Toledo Public Schools, were not paid by the Academy.
- Lease payments the Academy is obligated to pay Toledo Public Schools, for October 2006 through December 2006, were not paid by the Academy.

These conditions could result in late fees and/or missed obligations or payments that Academy officials may not detect when performing their assigned functions.

We recommend the Academy implement sponsor/management company payment procedures wherein:

- Invoices are received and paid timely (monthly/quarterly);
- Sponsorship, Management fees, and excess cash balances are determined, approved by the Board and paid timely;
- Payments for certain consistent monthly services (i.e. rent) are paid based on a pre-determined monthly amount.

FINDING NUMBER 2007-002

Material Weakness

Posting of Transactions and the GAAP Conversion Process

The academy should have procedures in place to prevent or detect material misstatements for the accurate presentation of the academy's financial statements and related disclosures. Errors were identified in posting to the Academy's books and calculating and posting journal entries to the financial statements during the GAAP conversion process which affected intergovernmental revenues, other revenues, purchased services, capital assets, accounts payable to Toledo Public Schools, and intergovernmental payables, resulting in eleven material audit adjustments totaling $1,035,410.

FINDING NUMBER 2007-002
(Continued)

The failure to record financial activity on the financial statements could result in material misstatements and inaccurate financial reporting.

We recommend due care be exercised in the calculation and preparation of the financial statements. Further, we recommend the academy implement review procedures to detect material financial statement errors.

Officials Response

The Treasurer has indicated that since she began in December 2005 she has met with administrators from Toledo Public Schools (Sponsor), and intends to make continued efforts to improve communications with Toledo Public Schools regarding invoicing and the terms of the Sponsorship Agreement. She has also indicated that efforts have been made in providing the appropriate documentation to the CPA that prepares the compilation.

PHOENIX ACADEMY
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Invoices and Expenses Contract with TPS and related expenses not being processed timely and supported completely	No	Not Corrected; Repeated and updated as Finding 2007-001

Mary Taylor, CPA
Auditor of State

PHOENIX ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 25, 2008

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