

**George A. Phillips Academy
Lucas County**

**Financial Report
Period from July 1, 2010 Through August 24, 2010 and
Year Ended June 30, 2010**



Dave Yost • Auditor of State

Board of Directors
George A Phillips Academy
3648 Victory Avenue
Toledo, Ohio 43607

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, 2009 through June 30, 2010 and July 1, 2010 through August 24, 2010. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 1, 2011

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George A. Phillips Academy

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Independent Auditor's Report

To the Board of Directors
George A. Phillips Academy

We have audited the statement of net assets (deficit) of George A. Phillips Academy (the "Academy") as of June 30, 2010 and the related statements of revenue, expenses, and changes in net assets (deficit) and cash flows for the year then ended. In addition, we have audited the statement of net assets (deficit) in liquidation as of August 24, 2010 and the related statements of changes in net assets (deficit) in liquidation and cash flows for the period from July 1, 2010 through August 24, 2010. 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

The accompanying financial statements for the fiscal year ended June 30, 2010 have been prepared assuming the Academy will continue as a going concern. As discussed in Note 14 to the financial statements, the Academy has been unable to increase their enrollment required by the Ohio Council of Community Schools, which raises substantial doubt about its ability to continue as a going concern. Also discussed in Note 14 to the financial statements, the Academy's contract with the Ohio Council of Community Schools was suspended effective August 24, 2010. As a result, the Academy has changed its basis of accounting for the period subsequent to June 30, 2010 from the going-concern basis to a liquidation basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2010 and the changes in financial position and cash flows thereof for the year then ended, the changes in net assets (deficit) in liquidation as of August 24, 2010, and the changes in net assets (deficit) in liquidation and cash flows for the period from July 1, 2010 through August 24, 2010, in conformity with accounting principles generally accepted in the United States of America applied on the bases described in the preceding paragraph.

To the Board of Directors
George A. Phillips Academy

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. We did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2011 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 audits.

Plante & Moran, PLLC

January 11, 2011

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 statement of net assets (deficit) of George A. Phillips Academy (the "Academy") as of June 30, 2010 and the related statements of revenue, expenses, and changes in net assets (deficit) and cash flows for the year then ended. In addition, we have audited the statement of net assets (deficit) in liquidation as of August 24, 2010 and the related statements of changes in net assets (deficit) in liquidation and cash flows for the period from July 1, 2010 through August 24, 2010 and have issued our report thereon dated January 11, 2011. We conducted our audits 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented or detected and corrected on a timely basis.

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

To the Board of Directors
George A. Phillips Academy

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors, and the sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 11, 2011

George A. Phillips Academy

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 period from July 1, 2010 through August 24, 2010 and for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local 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 - Period from July 1, 2010 through August 24, 2010

- In total, net assets increased \$20,796, which represents a 116 percent increase. This increase was due primarily to a reduction in long-term liabilities.
- Total assets increased \$286,412, which represents a 484 percent increase. This increase was primarily due to receipt of a bridge loan, which was subsequently paid back.
- Liabilities increased \$265,616, which represents a 344 percent increase. This increase was due to the recording of a note payable for the bridge loan received and subsequently paid off.

Financial Highlights - Fiscal Year Ended June 30, 2010

- In total, net assets (deficit) remained unchanged. This was due primarily to the disposition of assets and liabilities given the Academy's inability to conduct school in 2010 - 2011.
- Total assets decreased \$54,609, which represents a 48 percent decrease. This decrease was primarily due to the disposal referred to above in order to vacate the premises.
- Liabilities decreased \$54,609, which represents a 41 percent decrease. This decrease was due to the liquidation of liabilities referred to above.

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 (deficit) in liquidation, a statement of revenue, expenses, and changes in net assets (deficit), and a statement of cash flows.

George A. Phillips Academy

Management's Discussion and Analysis (Continued)

Statement of Net Assets (Deficit)

The statement of net assets (deficit) answers the question, "How did we do financially?" 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 revenue and expenses during the year, regardless of when the cash is received or paid.

Table I provides a summary of the Academy's net assets (deficit) in liquidation as of August 24, 2010, and the Academy's net assets (deficit) as of June 30, 2010 and 2009:

	Governmental Activities		
	August 24, 2010	June 30, 2010	June 30, 2009
Assets			
Current assets	\$ 341,306	\$ 53,214	\$ 67,534
Capital assets - Net	4,320	6,000	46,289
Total assets	345,626	59,214	113,823
Liabilities			
Current liabilities	342,785	77,169	75,238
Long-term liabilities	-	-	56,540
Total liabilities	342,785	77,169	131,778
Net Assets (Deficit)			
Invested in capital assets	4,320	6,000	46,289
Unrestricted	(1,479)	(23,955)	(64,244)
Total net assets (deficit)	<u>\$ 2,841</u>	<u>\$ (17,955)</u>	<u>\$ (17,955)</u>

Cash increased by \$321,411 from July 1, 2010 to August 24, 2010 and decreased by \$5,658 from June 30, 2009 to June 30, 2010. Intergovernmental receivables decreased by \$23,400 from July 1, 2010 to August 24, 2010 and \$11,819 from June 30, 2009 to June 30, 2010. Capital assets, net of depreciation, decreased by \$1,680 from June 30, 2010 to August 24, 2010 and \$40,289 from June 30, 2009 to June 30, 2010, primarily due to the pending move-in operations.

George A. Phillips Academy

Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets (deficit) in liquidation for the period from July 1, 2010 through August 24, 2010 and the changes in net assets (deficit) for fiscal years 2010 and 2009, as well as a listing of revenue and expenses.

TABLE 2

	Governmental Activities		
	Period from	Year Ended June	Year Ended June
	July 1, 2010	30, 2010	30, 2009
	Through		
	August 24, 2010		
Operating Revenue			
Foundation payments	\$ 87,927	\$ 532,196	\$ 540,199
Poverty-based assistance	4,804	29,020	85,972
Other	-	64,147	2,690
Federal grants - Unrestricted	7,012	38,326	-
Nonoperating Revenue			
Federal grants	18,365	257,752	214,459
State grants	-	4,345	4,309
Total revenue	118,108	925,786	847,629
Operating Expenses			
Salaries	26,397	247,411	288,102
Fringe benefits	9,708	79,429	104,413
Purchased services	58,046	456,829	471,702
Materials and supplies	479	9,885	19,020
Depreciation (unallocated)	1,680	41,326	22,952
Other expenses	758	21,693	2,707
Nonoperating Expenses			
Taxes	-	53,908	1,588
Interest	244	12,002	1,034
Loss on disposal of fixed assets	-	3,303	-
Total expenses	97,312	925,786	911,518
Change in Net Assets (Deficit)	\$ 20,796	\$ -	\$ (63,889)

George A. Phillips Academy

Management's Discussion and Analysis (Continued)

Net assets (deficit) increased by \$20,796 and remained unchanged for the period from July 1, 2010 through August 24, 2010 and the fiscal year ended June 30, 2010, respectively. There was a decrease in revenue of \$807,678 and a decrease in expenses of \$828,474 for the period from July 1, 2010 through August 24, 2010. For the period from July 1, 2010 through August 24, 2010, the foundation payments decreased by \$444,269 and federal grant revenue decreased by \$270,701. There was an increase in revenue of \$78,157 and a decrease in expenses of \$14,268 for the fiscal year ended June 30, 2010. For the fiscal year ended June 30, 2010, the foundation payments decreased by \$8,003 and federal grant revenue increased by \$81,619. Community schools receive no support from tax revenue.

The expense for salaries decreased by \$221,014 and \$40,691 and the expense for fringe benefits decreased by \$69,721 and \$24,984 for the period from July 1, 2010 through August 24, 2010 from the fiscal year ended June 30, 2010 and for the fiscal year ended June 30, 2010, respectively; this was primarily due to the shortened period of time for comparison. Material and supplies expense decreased by \$9,406 and \$9,135 for the period from July 1, 2010 through August 24, 2010 from the fiscal year ended June 30, 2010 and for the fiscal year ended June 30, 2010, respectively, due to the shortened period of time for comparison. Depreciation expense decreased by \$39,646 and increased by \$18,374 for the period from July 1, 2010 through August 24, 2010 from the fiscal year ended June 30, 2010 and for the fiscal year ended June 30, 2010, respectively.

Capital Assets

As of August 24, 2010 and June 30, 2010, the Academy had \$4,320 and \$6,000, respectively, invested in furniture, fixtures, and equipment, which represented a decrease of \$1,680 and \$40,289 from the fiscal years ended 2010 and 2009, respectively. Table 3 shows the capital assets (net of depreciation) as of August 24, 2010, June 30, 2010, and June 30, 2009.

TABLE 3	August 24, 2010	June 30, 2010	June 30, 2009
Furniture, fixtures, and equipment	<u>\$ 4,320</u>	<u>\$ 6,000</u>	<u>\$ 46,289</u>

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

Current Financial Issues and Economic Factors

George A. Phillips Academy was formed in 2003 under a contract with the Ohio Council of Community Schools. During the 2009-2010 school year, there were 72 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including poverty-based assistance) for the period from July 1, 2010 through August 24, 2010 and fiscal year 2010 amounted to \$92,731 and \$561,216, respectively.

As discussed in Note 14 to the financial statements, the Academy's contract with the Ohio Council of Community Schools was suspended effective August 24, 2010.

George A. Phillips Academy

Management's Discussion and Analysis (Continued)

Contacting the Academy'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, at 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823, or by e-mail at don.ash@leonagroup.com.

George A. Phillips Academy

Statement of Net Assets (Deficit)

	August 24, 2010 in Liquidation	June 30, 2010
Assets		
Current assets:		
Cash (Note 3)	\$ 323,101	\$ 1,690
Intergovernmental receivables (Note 4)	3,928	27,328
Other receivables	14,277	-
Prepaid expenses	-	24,196
Total current assets	341,306	53,214
Noncurrent assets - Depreciable capital assets - Net (Note 5)	4,320	6,000
Total assets	345,626	59,214
Liabilities - Current		
Accounts payable	8,361	34,356
Contracts payable (Note 12)	22,690	28,206
Intergovernmental payable	11,734	14,607
State aid note payable	300,000	-
Total current liabilities	342,785	77,169
Net Assets (Deficit)		
Invested in capital assets	4,320	6,000
Unrestricted	(1,479)	(23,955)
Total net assets (deficit)	<u>\$ 2,841</u>	<u>\$ (17,955)</u>

George A. Phillips Academy

Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)

	Period from July 1, 2010 Through August 24, 2010 in		Year Ended June 30, 2010
	Liquidation		
Operating Revenue			
Foundation payments	\$ 87,927	\$	532,196
Poverty-based assistance	4,804		29,020
Other revenue	-		64,147
Federal grants - Unrestricted	7,012		38,326
			<u>38,326</u>
Total operating revenue	99,743		663,689
Operating Expenses			
Salaries	26,397		247,411
Fringe benefits	9,708		79,429
Purchased services (Note 10)	58,046		456,829
Materials and supplies	479		9,885
Depreciation	1,680		41,326
Other	758		21,693
			<u>21,693</u>
Total operating expenses	97,068		856,573
Operating Income (Loss)	2,675		(192,884)
Nonoperating Revenue (Expenses)			
Federal grants	18,365		257,752
State grants	-		4,345
Federal and state taxes	-		(53,908)
Interest and other	(244)		(12,002)
Loss on disposal of fixed asset	-		(3,303)
			<u>(3,303)</u>
Total nonoperating revenue	18,121		192,884
Change in Net Assets (Deficit)	20,796		-
Net Assets (Deficit) - Beginning of period	(17,955)		(17,955)
			<u>(17,955)</u>
Net Assets (Deficit) - End of period	<u>\$ 2,841</u>	<u>\$</u>	<u>(17,955)</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

George A. Phillips Academy

Statement of Cash Flows

	Period from July 1, 2010 Through August 24, 2010 in	Year Ended June 30, 2010
	Liquidation	
Cash Flows from Operating Activities		
Received from foundation payments	\$ 85,054	\$ 525,682
Received from poverty-based assistance	4,804	29,020
Received from other operating revenue	7,012	52,846
Payments to suppliers for goods and services	(82,015)	(484,203)
Payments to employees for services	(25,257)	(253,240)
Payments for employee benefits	(9,708)	(79,429)
	<u>(20,110)</u>	<u>(209,324)</u>
Net cash used in operating activities	(20,110)	(209,324)
Cash Flows from Noncapital Financing Activities		
Proceeds from state aid note	300,000	250,000
Interest and other expense	(244)	(12,002)
Payments on state aid note	-	(250,000)
Federal grants received	41,765	269,571
State grants received	-	4,345
Federal and state taxes	-	(53,908)
	<u>341,521</u>	<u>208,006</u>
Net cash provided by noncapital financing activities	341,521	208,006
Cash Flows from Capital Activities - Payments for capital acquisitions	<u>-</u>	<u>(4,340)</u>
Net Increase (Decrease) in Cash	321,411	(5,658)
Cash - Beginning of period	<u>1,690</u>	<u>7,348</u>
Cash - End of period	<u>\$ 323,101</u>	<u>\$ 1,690</u>

George A. Phillips Academy

Statement of Cash Flows (Continued)

	Period from July 1, 2010 Through August 24, 2010 in Liquidation	Year Ended June 30, 2010
Reconciliation of operating income (loss) to net cash from operating activities:		
Operating income (loss)	\$ 2,675	\$ (192,884)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	1,680	41,326
Changes in assets and liabilities:		
Increase in other receivables	(14,277)	-
Increase in deferred revenue	-	(127)
Decrease (increase) in prepaid expenses	24,196	(3,157)
(Decrease) increase in accounts payable	(25,995)	17,659
Decrease in intergovernmental payable	(2,873)	(6,514)
Decrease in other payables	<u>(5,516)</u>	<u>(65,627)</u>
Total adjustments	<u>(22,785)</u>	<u>(16,440)</u>
Net cash used in operating activities	<u>\$ (20,110)</u>	<u>\$ (209,324)</u>

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note I - Description of the Academy and Reporting Entity

George A. Phillips Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through eighth. 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. Effective August 24, 2010, the Sponsor suspended the contract with the Academy. 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 period from July 1, 2010 through August 24, 2010 and the fiscal year ended June 30, 2010 were approximately \$3,000 and \$17,000, respectively.

The Academy operates under the direction of a five-member board of directors, which is also the governing board for another The Leona Group, LLC-managed school. The board of directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The board of directors controls the Academy's instructional/support facility staffed by nine certificated full-time teaching personnel who provide services to 72 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 12).

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 2 - Summary of Significant Accounting Policies

The financial statements of George A. Phillips Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 revenue 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 (deficit) in liquidation, a statement of revenue, expenses, and changes in net assets (deficit), and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets (deficit), 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 (deficit) in liquidation. The statement of revenue, expenses, and changes in net assets (deficit) presents increases (i.e., revenue) and decreases (i.e., expenses) in total net assets (deficit). 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.

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

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.

As discussed further in Note 14, the Academy has changed its basis of accounting for the period subsequent to June 30, 2010 from the going-concern basis to a liquidation basis of accounting, in which assets are carried at estimated realizable values, and liabilities are presented at the amount of cash expected to be paid.

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 August 24, 2010 and June 30, 2010 consist 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, 2010 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 charged to expense when incurred. In accordance with the liquidation basis of accounting, the net book value of capital assets has been adjusted to net realizable value.

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

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:

Furniture, fixtures, and equipment	3-7 years
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Net Assets (Deficit) - Net assets (deficit) 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 Revenue and Expenses - Operating revenue is that revenue that is generated directly from the primary activities. For the Academy, this revenue is primarily foundation payments and federal stabilization funds received in lieu of foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenue and expenses not meeting this definition are reported as nonoperating.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 Revenue - The Academy currently participates in the State Foundation Program and the State Poverty Based Assistance (PBA) program. Revenue received from these programs is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Tax Status - The Academy is exempt from taxes under §501(c)(3) of the Internal Revenue Code.

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 3 - Deposits

The Academy has designated one bank for the deposit of its funds.

The Academy's deposits consist solely of a checking account 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. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it may be 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. At August 24, 2010 and June 30, 2010, the Academy's deposit balances of \$328,036 and \$2,897 had \$78,036 and \$0 bank deposits (checking account) that were uninsured or uncollateralized, respectively.

Note 4 - Intergovernmental Receivables

Receivables at August 24, 2010 and June 30, 2010 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:

	<u>August 24, 2010</u>	<u>June 30, 2010</u>
Title I	\$ 3,928	\$ 10,380
Title II-A	-	682
Mentor Grant	-	3,037
Special Education	-	4,081
Special Education, Part B	-	2,479
Child Nutrition	-	4,145
Other	-	2,524
	<hr/>	<hr/>
Total intergovernmental receivables	\$ 3,928	\$ 27,328

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 5 - Capital Assets

Capital asset activity for the period from July 1, 2010 through August 24, 2010 is as follows:

	Balance June 30, 2010	Additions	Disposals	Balance August 24, 2010
Business-type Activity				
Capital assets being depreciated - Furniture, fixtures, and equipment	\$ 219,625	\$ -	\$ -	\$ 219,625
Less accumulated depreciation - Furniture, fixtures, and equipment	<u>213,625</u>	<u>1,680</u>	<u>-</u>	<u>215,305</u>
Total capital assets being depreciated - Net	<u>\$ 6,000</u>	<u>\$ (1,680)</u>	<u>\$ -</u>	<u>\$ 4,320</u>

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

	Balance June 30, 2009	Additions	Disposals	Balance June 30, 2010
Business-type Activity				
Capital assets being depreciated - Furniture, fixtures, and equipment	\$ 219,625	\$ 4,340	\$ (4,340)	\$ 219,625
Less accumulated depreciation - Furniture, fixtures, and equipment	<u>173,336</u>	<u>41,326</u>	<u>(1,037)</u>	<u>213,625</u>
Total capital assets being depreciated - Net	<u>\$ 46,289</u>	<u>\$ (36,986)</u>	<u>\$ (3,303)</u>	<u>\$ 6,000</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 the period from July 1, 2010 through August 24, 2010 and the fiscal year ended June 30, 2010, 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

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 6 - Risk Management (Continued)

Coverages are as follows:

Educational errors and omissions:

Per occurrence	\$ 9,000,000
Total per year	9,000,000

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

Plan Description - The Academy contributes to the School Employees' Retirement System (SERS), a cost-sharing, multiple-employer 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 may be obtained by writing to the School Employees' Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - For the fiscal year ended June 30, 2010, 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 healthcare benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS's retirement board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the period ended August 24, 2010 and fiscal years ended June 30, 2010, 2009, and 2008 were \$64, \$4,533, \$5,348, and \$3,957, respectively; 47 percent has been contributed for fiscal year 2009; 100 percent has been contributed for the period ended August 24, 2010 and fiscal years 2010 and 2008.

Note 7 - Defined Benefit Pension Plans (Continued)

State Teachers' Retirement System

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

New members have a choice of three retirement plans: a defined benefit plan (DBP), a defined contribution plan (DCP), and a combined plan (CP). The DBP 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. The CP offers features of both the DCP and the DBP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age 60; the DCP portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers' Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 7 - Defined Benefit Pension Plans (Continued)

The Academy's required contributions for pension obligations to STRS Ohio for the period ended August 24, 2010 and fiscal years ended June 30, 2010, 2009, and 2008 were \$3,432, \$22,768, \$30,285, and \$29,256, respectively; 100 percent has been contributed for fiscal years 2010, 2009, and 2008, and 72 percent has been contributed for the period ended August 24, 2010. Contributions to the DCP and CP for fiscal year 2010 were \$22,911 made by the Academy and \$16,365 made by the plan members. Contributions to the DCP and CP for the period ended August 24, 2010 were \$2,664 made by the Academy and \$1,903 made by the plan members.

Note 8 - Postemployment Benefits

School Employees' Retirement System

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

Funding Policy - State statute permits SERS to fund the healthcare benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the retirement board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2010, the surcharge amount was \$888. The surcharge amount was not determinable for the period ended August 24, 2010.

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

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 8 - Postemployment Benefits (Continued)

The Academy's contributions for health care for the period ended August 24, 2010 and fiscal years ended June 30, 2010, 2009, and 2008 were \$2, \$163, \$2,448, and \$1,806, respectively; 47 percent has been contributed for fiscal year 2009; 100 percent has been contributed for the period ended August 24, 2010 and fiscal years 2010 and 2008.

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the period ended August 24, 2010 and fiscal years ended June 30, 2010, 2009, and 2008 were \$4, \$270, \$441, and \$285, respectively; 47 percent has been contributed for fiscal year 2009; 100 percent has been contributed for the period ended August 24, 2010 and fiscal years 2010 and 2008.

State Teachers' Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the plan and gives the retirement board authority over how much, if any, of the healthcare costs will be absorbed by STRS Ohio. Active employee members do not contribute to the plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the period ended August 24, 2010 and fiscal years ended June 30, 2010, 2009, and 2008 were \$264, \$1,751, \$2,330, and \$2,250, respectively; 100 percent has been contributed for fiscal years 2010, 2009, and 2008, and 72 percent has been contributed for the period ended August 24, 2010.

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

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 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 the overall financial position of the Academy at August 24, 2010 and June 30, 2010.

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 the state foundation funding is calculated. For the period from July 1, 2010 through August 24, 2010, 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 financial position of the Academy at August 24, 2010.

Note 10 - Purchased Service Expenses

For the period from July 1, 2010 through August 24, 2010 and the year ended June 30, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

	Period from July 1, 2010 Through August 24, 2010	Year Ended June 30, 2010
Repairs and maintenance	\$ 2,970	\$ 26,217
Legal	-	1,796
Insurance	2,924	20,169
Advertising	1,581	7,826
Dues and fees	455	13,608
Ohio Council of Community Schools	2,712	16,625
The Leona Group, LLC (Note 12)	14,173	51,458
Cleaning services	3,301	1,847
Utility	4,880	40,042
Other professional services	2,278	139,199
Other rentals and leases	772	6,042
Building lease agreements (Note 11)	22,000	132,000
Total purchased services	<u>\$ 58,046</u>	<u>\$ 456,829</u>

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 11 - Operating Leases

The Academy entered into a lease for the period from August 18, 2008 through June 30, 2013 with The Leona Group, LLC to lease its facilities. Lease expense for the period from July 1, 2010 through August 24, 2010 and the year ended June 30, 2010 was \$22,000 and \$132,000, respectively. During the fiscal year ended June 30, 2010, the Academy signed an amendment to the lease agreement, which deferred \$66,000 of lease payments for the period from January 1, 2009 through June 30, 2009. The deferred payments will be equally applied through the remaining months of the lease commencing July 1, 2009. The remaining deferred lease liability of \$49,500 was written off by the Academy as of June 30, 2010 under the liquidation basis of accounting as this was not deemed collectible by TLG due to suspension of the Academy.

Note 12 - 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 revenue over expenses, if any. For the fiscal year ended June 30, 2010, management fees were waived in order that the Academy not experience an increase in its net deficit. The Academy incurred management fees totaling \$14,173 and \$51,458 for the period from July 1, 2010 through August 24, 2010 and the year ended June 30, 2010, respectively. At August 24, 2010 and June 30, 2010, contracts payable included approximately \$14,000 and \$20,000, respectively, for reimbursement of subcontracted employees and other operating costs and \$8,956 and \$7,939, respectively, for payment of management fees. 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

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 12 - 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 period from July 1, 2010 through August 24, 2010 and the year ended June 30, 2010, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

	Period from July 1, 2010 Through August 24, 2010	Year Ended June 30, 2010
Direct expenses:		
Salaries	\$ 26,397	\$ 247,411
Fringe benefits	9,708	79,429
Professional and technical services	15,400	95,775
Other direct costs	11,709	136,617
Total direct expenses	<u>\$ 63,214</u>	<u>\$ 559,232</u>

Note 13 - State Aid Note

During the fiscal year ended June 30, 2010, the Academy borrowed \$250,000 in a state aid note. The note bore interest at a variable annual interest rate equal to the prime rate, adjusted monthly. The effective rate was 3.25 percent at June 30, 2010 and the note was paid in full on June 30, 2010.

George A. Phillips Academy

Notes to Financial Statements August 24, 2010 and June 30, 2010

Note 13 - State Aid Note (Continued)

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

Note 14 - Pending Dissolution

As discussed in Note 1, the Academy entered into a contract with the Ohio Council of Community Schools for a period of five years through June 30, 2007 which was subsequently extended for a period of seven years through June 30, 2014. For fiscal year 2010, the Academy was notified that if the enrollment figures did not improve, the contract with the Ohio Council of Community Schools would be suspended prior to the beginning of the 2011 school year. Effective August 24, 2010, the contract was suspended by the Ohio Council of Community Schools. The Academy ceased operations as of August 24, 2010 and is currently in the process of dissolving the remaining assets and liabilities. Consequently, the Academy has changed its basis of accounting for the period subsequent to June 30, 2010 from the going-concern basis to a liquidation basis of accounting. All assets and liabilities have been adjusted to reflect their estimated fair market value as of August 24, 2010.



Dave Yost • 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
APRIL 14, 2011**