

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2017**

***James G. Zupka, CPA, Inc.***  
**Certified Public Accountants**





# Dave Yost • Auditor of State

Members of the Board  
Phoenix Academy  
1505 Jefferson Avenue  
Toledo, Ohio 43604

We have reviewed the *Independent Auditor's Report* of Phoenix Academy, Lucas County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2016 through June 30, 2017. 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. Phoenix 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

March 19, 2018

**This page intentionally left blank.**

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

---

---

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	11-31
Required Supplementary Information:	
Schedule of the Academy's Proportionate Share of the Net Pension Liability -	
School Employees Retirement System (SERS) of Ohio - Last Four Fiscal Years	32
State Teachers Retirement System (STRS) of Ohio - Last Four Fiscal Years	33
Schedule of Academy Contributions -	
School Employees Retirement System (SERS) of Ohio - Last Five Fiscal Years	34-35
State Teachers Retirement System (STRS) of Ohio - Last Five Fiscal Years	36-37
Notes to the Required Supplementary Information	38
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Schedule of Findings and Questioned Costs	41
Schedule of Prior Citations and Recommendations	42

**This page intentionally left blank.**

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125*

---

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board  
Phoenix Academy  
Toledo, Ohio

The Honorable Dave Yost  
Auditor of State  
State of Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Phoenix Academy, Lucas County, Ohio, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Phoenix Academy as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, 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, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 7, 2017



**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The management's discussion and analysis of the Phoenix Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2017. 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**

Key financial highlights for 2017 are as follows:

- In total, net position was a balance of \$2,474,702, at June 30, 2017.
- The Academy had operating revenues of \$1,106,235 and operating expenses of \$3,225,980 for fiscal year 2017. The Academy also received \$244,864 in federal grants and \$8,365 in interest revenue during fiscal year 2017.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy Financial Activities**

***Statement of Net position, Statement of Revenues, Expenses, and Changes in Net position and the Statement of Cash Flows***

These documents look at all financial transactions and asks the question, "How did we do financially during 2017?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in that position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 8 and 9 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 10 of this report.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The table below provides a summary of the Academy's net position for fiscal year 2017 and 2016.

<b>Net Position</b>		
	2017	2016
<b><u>Assets</u></b>		
Current assets	\$ 3,810,398	\$ 3,326,126
Non-current assets	1,957,899	2,022,241
Total assets	5,768,297	5,348,367
<b><u>Deferred outflows of resources</u></b>		
	149,048	68,566
<b><u>Liabilities</u></b>		
Current liabilities	743,840	418,862
Non-current liabilities	2,633,375	606,133
Total liabilities	3,377,215	1,024,995
<b><u>Deferred inflows of resources</u></b>		
	65,428	50,720
<b><u>Net Position</u></b>		
Investment in capital assets	1,957,899	2,022,241
Restricted	687,522	688,619
Unrestricted (deficit)	(170,719)	1,630,358
Total net position	\$ 2,474,702	\$ 4,341,218

During fiscal year 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Academy's net position was a balance of \$2,474,702.

At fiscal year-end, capital assets represented 33.95% of total assets. Capital assets consisted of buildings and furniture, fixtures and equipment. At June 30, 2017, the Academy's investment in capital assets was \$1,957,899. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the Academy's net position, \$687,522, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position was a deficit of \$170,719.

The most significant change between fiscal years 2017 and 2016 is in non-current liabilities. The Academy voluntarily reduced its Full Time Equivalency (FTE) to accurately reflect the fiscal year 2017 FTE. Since the Academy's Foundation Funding is based upon the FTE, this resulted in an overpayment from ODE to the Academy of \$2,346,892 for fiscal year 2017. Beginning in September 2017, ODE will reduce the Academy's monthly funding by \$39,115 through August 2022 in order to recoup the overpayment. This overpayment is recorded as a liability on the Academy's financial statements.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The table below provides a comparative analysis of the changes in net position for fiscal years 2017 and 2016.

**Change in Net Position**

	2017	2016
<b><u>Operating revenues:</u></b>		
State foundation	\$ 849,652	\$ 2,785,359
Special education	147,350	555,901
Casino revenue	21,327	22,873
Classroom fees	23,175	22,575
Charges for services	490	1,038
Other operating revenues	64,241	1,204
Total operating revenue	1,106,235	3,388,950
<b><u>Operating expenses:</u></b>		
Salaries	235,682	237,872
Fringe benefits	53,854	39,532
Purchased services	2,821,006	2,983,757
Materials and supplies	21,341	27,353
Depreciation	64,342	68,762
Other	29,755	28,910
Total operating expenses	3,225,980	3,386,186
<b><u>Non-operating revenues:</u></b>		
Federal grants	244,864	259,215
Debt forgiveness	-	441,040
Interest	8,365	8,634
Total non-operating revenues	253,229	708,889
Change in net position	(1,866,516)	711,653
Net position at beginning of year	4,341,218	3,629,565
Net position at end of year	\$ 2,474,702	\$ 4,341,218

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

The decrease in state foundation and special education revenue is due to the adjustment to the Academy's FTE for fiscal year 2017.

The decrease in purchased services expenses is due to less paid to Toledo Public Schools.

The Academy owes \$323,671 to Toledo Public Schools for purchased services.

**Capital Assets**

At the end of fiscal year 2017, the Academy had \$1,957,899 (net of \$636,595 in accumulated depreciation) invested in furniture, equipment and a building. The building was purchased in June 2009. The Academy's asset capitalization minimum is \$5,000. The table below shows capital asset balances for fiscal years 2017 and 2016:

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

**Capital Assets at June 30  
(Net of Depreciation)**

	<u>2017</u>	<u>2016</u>
Building	\$ 1,943,649	\$ 2,004,140
Furniture, fixtures and equipment	<u>14,250</u>	<u>18,101</u>
Total	<u>\$ 1,957,899</u>	<u>\$ 2,022,241</u>

**Current Financial Related Activities**

The Academy was formed in 2003 and is sponsored by Toledo Public Schools. During the 2016-2017 fiscal year, there were approximately 739 students enrolled in the Academy. The Academy receives most of its finances from state aid.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients and creditors 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 financial information contact Patricia Zelei, Treasurer, Phoenix Academy, 1505 Jefferson Avenue, Toledo, Ohio 43604.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2017

<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . . .	\$ 3,711,503
Receivables:	
Accounts . . . . .	225
Intergovernmental. . . . .	97,197
Prepayments . . . . .	1,473
Total current assets . . . . .	<u>3,810,398</u>
Non-current assets:	
Depreciable capital assets, net . . . . .	<u>1,957,899</u>
Total non-current assets. . . . .	<u>1,957,899</u>
Total assets. . . . .	<u>5,768,297</u>
 <b>Deferred outflows of resources:</b>	
Pension - STRS. . . . .	50,366
Pension - SERS. . . . .	98,682
Total deferred outflows of resources . . . . .	<u>149,048</u>
 <b>Liabilities:</b>	
Current liabilities:	
Accounts payable. . . . .	21,320
Accrued wages and benefits . . . . .	3,497
Intergovernmental payable . . . . .	4,203
Due to Ohio Department of Education. . . . .	391,149
Accounts payable to Toledo Public Schools. . . . .	323,671
Total current liabilities . . . . .	<u>743,840</u>
Non-current liabilities:	
Net pension liability. . . . .	677,632
Due to Ohio Department of Education. . . . .	1,955,743
Total non-current liabilities . . . . .	<u>2,633,375</u>
Total liabilities . . . . .	<u>3,377,215</u>
 <b>Deferred inflows of resources:</b>	
Pension - STRS. . . . .	4,326
Pension - SERS. . . . .	61,102
Total deferred inflows of resources . . . . .	<u>65,428</u>
 <b>Net position:</b>	
Investment in capital assets. . . . .	1,957,899
Restricted for:	
Restricted for locally funded programs. . . . .	668,112
Restricted for federal programs . . . . .	19,410
Unrestricted (deficit). . . . .	(170,719)
Total net position. . . . .	<u>\$ 2,474,702</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<b>Operating revenues:</b>	
Foundation revenue . . . . .	\$ 849,652
Special education. . . . .	147,350
Casino revenue. . . . .	21,327
Classroom fees. . . . .	23,175
Charges for services. . . . .	490
Other . . . . .	64,241
Total operating revenues . . . . .	<u>1,106,235</u>
 <b>Operating expenses:</b>	
Salaries and wages. . . . .	235,682
Fringe benefits. . . . .	53,854
Purchased services. . . . .	2,821,006
Materials and supplies . . . . .	21,341
Depreciation . . . . .	64,342
Other. . . . .	29,755
Total operating expenses. . . . .	<u>3,225,980</u>
 Operating loss . . . . .	 <u>(2,119,745)</u>
 <b>Non-operating revenues:</b>	
Operating grants - federal . . . . .	244,864
Interest revenue . . . . .	8,365
Total nonoperating revenues . . . . .	<u>253,229</u>
 Change in net position . . . . .	 (1,866,516)
 <b>Net position at beginning of year. . . . .</b>	 <u>4,341,218</u>
 <b>Net position at end of year . . . . .</b>	 <u>\$ 2,474,702</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<b>Cash flows from operating activities:</b>	
Cash received from State of Ohio. . . . .	\$ 3,373,420
Cash received from classroom fees. . . . .	23,475
Cash received from charges for services. . . . .	490
Cash received from other operations . . . . .	37,625
Cash payments to employees for services. . . . .	(236,171)
Cash payments for employee benefits. . . . .	(46,035)
Cash payments for purchased services . . . . .	(2,879,040)
Cash payments for materials and supplies . . . . .	(21,648)
Cash payments for other expenses . . . . .	<u>(30,511)</u>
Net cash provided by operating activities . . . . .	<u>221,605</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from grants and subsidies. . . . .	<u>244,050</u>
Net cash provided by noncapital financing activities. . . . .	<u>244,050</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	8,365
Loan repayment from Polly Fox Academy. . . . .	<u>6,000</u>
Net cash provided by investing activities . . . . .	<u>14,365</u>
Net increase in cash and cash cash equivalents . . . . .	480,020
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>3,231,483</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 3,711,503</u></u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss . . . . .	\$ (2,119,745)
Adjustments:	
Depreciation . . . . .	64,342
Changes in assets and liabilities:	
Decrease in accounts receivable . . . . .	300
Increase in intergovernmental receivable . . . . .	(15,785)
Decrease in prepayments. . . . .	6,047
Increase in deferred outflows - STRS. . . . .	(15,305)
Increase in deferred outflows - SERS . . . . .	(65,177)
Decrease in accounts payable . . . . .	(12,005)
Decrease in accrued wages and benefits . . . . .	(489)
Decrease in intergovernmental payable. . . . .	(177)
Increase in due to Ohio Department of Education. . .	2,346,892
Decrease in accounts payable to Toledo Public Schools.	(53,500)
Decrease in deferred inflows - STRS. . . . .	(7,222)
Increase in deferred inflows - SERS. . . . .	21,930
Increase in net pension liability. . . . .	<u>71,499</u>
Net cash provided by operating activities . . . . .	<u><u>\$ 221,605</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

The Phoenix Academy, Lucas County, Ohio (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 Toledo Public Schools (the “Sponsor”) for a period of five academic years commencing September 1, 2003. The current contract is effective through June 30, 2017. Subsequent to fiscal year end, the Academy and the Sponsor entered into a new contract commencing on July 1, 2017 and ending on June 30, 2022, which extends for additional one-year terms unless either party exercises its right of non-renewal.

The Academy operates under the direction of a six member Governing Board. The 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 26 non-certified staff member and 24 certified full time teaching personnel who provide services to 739 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy’s significant accounting policies are described below.

**A. Basis of Presentation**

The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

**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 statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

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

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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 the eligibility requirements have been satisfied. Eligibility requirements including timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Deferred Outflows of Resources and Deferred Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, see Note 12 for deferred outflows of resources related the Academy's net pension liability.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, see Note 12 for deferred inflows of resources related to the Academy's net pension liability.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

**E. 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 House Bill 364, which took effect April 8, 2003, added Ohio Revised Code Section 3314.03 (11)(d), which states that community schools must comply with Ohio Revised Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

**F. Cash and Cash Equivalents**

The Academy's Treasurer accounts for all monies received by the Academy. All cash received by the Treasurer is maintained in separate bank accounts in the Academy's name.

For the purposes of the statement of cash flows and for presentation on the statement of net position, 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 2017, investments were limited to investments in the State Treasury Asset Reserve of Ohio (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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Academy measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

**G. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition value on the date donated. The Academy has maintained a capitalization threshold of \$5,000. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expended when incurred.

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

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 years
Furniture fixtures and equipment	5 years

**H. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “investment in capital assets,” consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2017, 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.

**J. Operating Revenues and Expenses**

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

**K. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Foundation and special education revenue received by the Academy during fiscal year 2017 was \$997,002.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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. Federal grants for the fiscal year 2017 received by the Academy were \$244,864.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

**L. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**M. Estimates**

The preparation of financial statements in conformity with GAAP 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.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2017, the Academy has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)**

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Academy.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

**A. Deposits with Financial Institutions**

At June 30, 2017, the carrying amount of all Academy deposits was \$3,280,870. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$250,000 of the Academy’s bank balance of \$3,466,658 was covered by the Federal Deposit Insurance Corporation and \$3,216,658 was exposed to custodial credit risk.

Custodial credit risk is the risk that, in the event of bank failure, the Academy’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank 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 has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

**B. Investments**

As of June 30, 2017, the Academy had the following investments and maturities:

<u>Investment type</u>	<u>Amortized cost</u>	<u>Investment Maturities</u> <u>6 months or less</u>
STAR Ohio	\$ 430,633	\$ 430,633

*Interest Rate Risk:* Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy’s investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Academy at June 30, 2017:

<u>Investment type</u>	<u>Amortized cost</u>	<u>% of Total</u>
STAR Ohio	\$ 430,633	100%

**C. Reconciliation of Cash and Cash Equivalents to the Statement of Net Position**

The following is a reconciliation of cash and cash equivalents as reported in the note above to cash and cash equivalents as reported on the statement of net position as of June 30, 2017:

<u>Cash and cash equivalents per note</u>	
Carrying amount of deposits	\$ 3,280,870
Investments	430,633
Total	<u>\$ 3,711,503</u>
 <u>Cash and cash equivalents per statement of net position</u>	 <u>\$ 3,711,503</u>

**NOTE 5 - RECEIVABLES**

At June 30, 2017, receivables consisted of accounts and intergovernmental grants and entitlements. All receivables are considered collectible within one year. A summary of intergovernmental receivables is below:

	<u>Receivable</u>
Title VI-B	\$ 7,738
Title I	58,841
E-Rate reimbursement	26,616
SERS refund	4,002
Total	<u>\$ 97,197</u>

**NOTE 6 - PURCHASED SERVICES**

For fiscal year ended June 30, 2017, purchased services expenses were as follows:

Professional and technical services	\$ 2,514,604
Property services & rentals	163,920
Travel mileage/meeting expense	5,718
Communications	74,965
Utilities	61,799
Total	<u>\$ 2,821,006</u>

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 06/30/16	Additions	Deductions	Balance 06/30/17
<i>Capital assets, being depreciated:</i>				
Building	\$ 2,419,693	\$ -	\$ -	\$ 2,419,693
Furniture, fixtures and equipment	174,801	-	-	174,801
Total capital assets, being depreciated	<u>2,594,494</u>	-	-	<u>2,594,494</u>
<i>Less: accumulated depreciation</i>				
Building	(415,553)	(60,491)	-	(476,044)
Furniture, fixtures and equipment	(156,700)	(3,851)	-	(160,551)
Total accumulated depreciation	<u>(572,253)</u>	<u>(64,342)</u>	-	<u>(636,595)</u>
Capital assets, net	<u>\$ 2,022,241</u>	<u>\$ (64,342)</u>	<u>\$ -</u>	<u>\$ 1,957,899</u>

**NOTE 8 - LONG TERM OBLIGATIONS**

During the fiscal year 2017, the following changes occurred in long-term obligations.

	Balance 6/30/16	Increase	Decrease	Balance 6/30/17	Due in One Year
Due to ODE	\$ -	\$2,346,892	\$ -	\$ 2,346,892	\$ 391,149
Net pension liability	606,133	71,499	-	677,632	-
	<u>\$ 606,133</u>	<u>\$2,418,391</u>	<u>\$ -</u>	<u>\$ 3,024,524</u>	<u>\$ 391,149</u>

Due to Ohio Department of Education (ODE) - The Academy voluntarily reduced its Full Time Equivalency (FTE) to accurately reflect the fiscal year 2017 FTE. Since the Academy's Foundation Funding is based upon the FTE, this resulted in an overpayment from ODE to the Academy of \$2,346,892 for fiscal year 2017. Beginning in September 2017, ODE will reduce the Academy's monthly funding by \$39,115 through August 2022 in order to recoup the overpayment. A repayment schedule for the liability to ODE is as follows:

Fiscal Year Ending June 30,	Due to ODE
2018	\$ 391,149
2019	469,378
2020	469,378
2021	469,379
2022	469,378
2023	78,230
Total	<u>\$ 2,346,892</u>

Net pension liability - See Note 12 for detail.



**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 9 - 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 (the "Sponsor") for educational and financial management services. The Academy entered a new contract with the Sponsor for three years effective July 1, 2008 through June 30, 2011, with two one year renewal periods at the option of the parties. During fiscal year 2012, the contract was amended to add an additional year. During fiscal year 2014, the contract was amended to add an additional three years. The Academy and Sponsor renewed the contract through June 30, 2017.

Total expenses paid to the Sponsor were \$2,303,515 of which \$323,671 is recognized as an amount due to the Sponsor at June 30, 2017. The amount due to the Sponsor is for purchased services.

The annual fee is paid in the subsequent fiscal year totaling an amount equal to 100% of the unencumbered balance of the amount in excess of \$600,000 with exceptions detailed in the contract with the Sponsor.

The Sponsor has notified the Academy that it does not intend to bill for any past annual fees due or any future annual fees, even though the contract language regarding the annual fee has not been modified.

Terms of the contract require the Sponsor to provide the following:

- A. All instructional personnel, and support staff, all payroll and inclusion in benefit plans;
- B. Transportation for the Academy upon request of the Academy;
- C. Reports on Academy operations, finances, and students' performance, upon request of the Academy;
- D. Any other function necessary or expedient for the administration of the Academy at the request of the Academy;
- E. Detailed, itemized monthly invoices of costs associated with items A-D above.

**NOTE 10 - OPERATING LEASES - LESSEE DISCLOSURE**

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 has been extended to November 30, 2017. In fiscal year 2017, expense under the lease for the Academy totaled \$25,470.

The Academy entered into a lease for the period of August 25, 2008 through August 2009 with East Toledo Family Center to lease additional space to house the Academy. The lease was extended through 2017. In fiscal year 2017, expenses under the lease for the Academy totaled \$32,640.

The Academy entered into a lease for the period November 1, 2014 through October 31, 2017 with Library Plaza, LLC to lease additional space to house the Academy. The lease can be renewed for an additional three year period. In fiscal year 2017, expenses under the lease for the Academy totaled \$19,107.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 11 - 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 fiscal year 2017, the Academy obtained insurance through broker Hylant Insurance with the following insurance coverage:

Property damage per occurrence	\$	2,908,080
General liability coverage:		
Bodily injury and property damage limit		1,000,000
Personal and advertising injury limit		1,000,000
General aggregate limit		3,000,000
Fire damage limit - any one event		500,000
Medical expense - any one person or accident		10,000
Products - completed operations aggregate		1,000,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Coverage has not been reduced from the prior year.

**B. Workers' Compensation**

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

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Academy's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Academy's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including pension.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable*.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description - Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$25,607 for fiscal year 2017. Of this amount, \$268 is reported as intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description - Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$9,938 for fiscal year 2017. Of this amount, \$221 is reported as intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.00722280%	0.00070193%	
Proportion of the net pension liability current measurement date	0.00613540%	0.00068287%	
Change in proportionate share	-0.00108740%	-0.00001906%	
Proportionate share of the net pension liability	\$ 449,055	\$ 228,577	\$ 677,632
Pension expense	\$ 19,275	\$ 21,995	\$ 41,270

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 6,057	\$ 9,235	\$ 15,292
Net difference between projected and actual earnings on pension plan investments	37,041	18,979	56,020
Changes of assumptions	29,977	-	29,977
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	-	12,214	12,214
Academy contributions subsequent to the measurement date	<u>25,607</u>	<u>9,938</u>	<u>35,545</u>
Total deferred outflows of resources	<u>\$ 98,682</u>	<u>\$ 50,366</u>	<u>\$ 149,048</u>
<b>Deferred inflows of resources</b>			
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	<u>\$ 61,102</u>	<u>\$ 4,326</u>	<u>\$ 65,428</u>
Total deferred inflows of resources	<u>\$ 61,102</u>	<u>\$ 4,326</u>	<u>\$ 65,428</u>

\$35,545 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ (5,702)	\$ 7,456	\$ 1,754
2019	(5,727)	7,455	1,728
2020	12,753	14,739	27,492
2021	<u>10,649</u>	<u>6,452</u>	<u>17,101</u>
Total	<u>\$ 11,973</u>	<u>\$ 36,102</u>	<u>\$ 48,075</u>

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*Actuarial Assumptions - SERS*

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
 Total	 <u>100.00 %</u>	

**Discount Rate** - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Academy's proportionate share of the net pension liability	\$ 594,520	\$ 449,055	\$ 327,294



**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*Actuarial Assumptions - STRS*

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	 <u>7.61 %</u>

\* 10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investments expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**Discount Rate** - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 303,760	\$ 228,577	\$ 165,156

**Changes Between Measurement Date and Report Date** - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to Academy's NPL is expected to be significant.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Health Care Plan Description** - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Academy's surcharge obligation was \$2,373.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$2,373, \$2,447, and \$5,404, respectively. The fiscal year 2017 amount has been reported as intergovernmental payable. The full amount has been contributed for fiscal years 2016 and 2015.

**B. State Teachers Retirement System**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Academy's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

**NOTE 14 - 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.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 15 - NOTE RECEIVABLE**

On November 19, 2014, the Academy issued a promissory note to Polly Fox Academy in the amount of \$6,000. The interest rate on the note was 5%. The balance of the note matured on June 30, 2017.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATION**

Northern Ohio Educational Computer Association (NOECA)

The NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports the NOECA based upon a per pupil charge, dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating district and a representative from the fiscal agent. The NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. Financial information can be obtained by contacting Matt Bauer, who serves as Controller, at 219 Howard Drive, Sandusky, Ohio 44870.

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2017.

**B. Foundation Funding**

Academy foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 17 - CONTINGENCIES - (Continued)**

In addition, the Academy's contract with their Sponsor require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy.

**C. Litigation**

The Academy is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.00613540%	0.00722280%	0.00779600%	0.00779600%
Academy's proportionate share of the net pension liability	\$ 449,055	\$ 412,140	\$ 394,551	\$ 463,603
Academy's covered-employee payroll	\$ 190,543	\$ 217,443	\$ 226,551	\$ 221,712
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	235.67%	189.54%	174.16%	209.10%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.00068287%	0.00070193%	0.00063073%	0.00063073%
Academy's proportionate share of the net pension liability	\$ 228,577	\$ 193,993	\$ 153,415	\$ 182,747
Academy's covered-employee payroll	\$ 71,836	\$ 73,236	\$ 64,446	\$ 67,300
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	318.19%	264.89%	238.05%	271.54%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 25,607	\$ 26,676	\$ 28,659	\$ 31,400
Contributions in relation to the contractually required contribution	<u>(25,607)</u>	<u>(26,676)</u>	<u>(28,659)</u>	<u>(31,400)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 182,907	\$ 190,543	\$ 217,443	\$ 226,551
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

Note: Schedule is intended to show information for 10 years.  
Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.



2013

\$ 30,685

(30,685)

\$ -

\$ 221,712

13.84%

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 9,938	\$ 10,057	\$ 10,253	\$ 8,378
Contributions in relation to the contractually required contribution	<u>(9,938)</u>	<u>(10,057)</u>	<u>(10,253)</u>	<u>(8,378)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 70,986	\$ 71,836	\$ 73,236	\$ 64,446
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

Note: Schedule is intended to show information for 10 years.  
Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

2013

\$ 8,749

(8,749)

\$ -

\$ 67,300

13.00%

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125*

---

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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 Members of the Board  
Phoenix Academy  
Toledo, Ohio

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Phoenix Academy, Lucas County, Ohio, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 7, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

*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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered a significant deficiency as item **2017-001**.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item **2017-001**.

### ***Academy's Response to Findings***

The Academy's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Academy's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

### ***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 7, 2017

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

---

---

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

**Item 2017-001 - Significant Deficiency and Material Noncompliance - Foundation Funding**

Condition and Criteria

Per Ohio Revised Code Section 3314.08, Foundation Funding is based upon Academy's Full-Time Equivalency (FTE). Each internet or computer-based school is required to keep accurate records of each student's participation in daily learning opportunities. For students that are not participating 100 percent of the time, the School should adjust the student percentages of time attended factor in EMIS to reflect less than 1.0 percent FTE for the entire school year. As a result of a review performed by ODE in July, 2017, the Academy reduced its FTE to accurately reflect the fiscal year 2017 to account for student's actual documented learning opportunities.

Effect

The Academy was overpaid by the Ohio Department of Education by \$2.3 million.

Cause

The Academy was not reporting an accurate FTE based on documented learning opportunities nor keeping support that demonstrates students have participated in learning opportunities.

Recommendation

We recommend that the Academy maintain accurate records of each student's participation in daily learning opportunities and continue to track and monitor its student's learning opportunities and produce a report quarterly to compare to EMIS data.

Auditee Response/Corrective Action Plan

The Academy has already established a payment plan with ODE to reduce the Academy's monthly funding amount in order to recoup the overpayment. In addition, the Academy is also requiring student attendance in class daily to assist in tracking learning opportunities as well as updating and adjusting EMIS data on a quarterly basis instead of yearly.

**PHOENIX ACADEMY  
LUCAS COUNTY, OHIO  
SCHEDULE OF PRIOR CITATIONS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

---

---

The prior audit report, as of June 30, 2016, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.





# Dave Yost • Auditor of State

PHOENIX ACADEMY

LUCAS COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 29, 2018