

**George A. Phillips Academy
Lucas County**

**Revised Financial Report
June 30, 2009**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the George A. Phillips Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 20, 2010

This Page is Intentionally Left Blank.

George A. Phillips Academy

Contents

Report Letter	1-2
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>	3-4
Management's Discussion and Analysis	5-8
Revised Basic Financial Statements	
Revised Statement of Net Assets (Deficit)	9
Revised Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)	10
Revised Statement of Cash Flows	11-12
Notes to Revised Financial Statements	13-26

This Page is Intentionally Left Blank.

Independent Auditor's Report

To the Board of Directors
George A. Phillips Academy

We have audited the accompanying revised basic financial statements of George A. Phillips Academy (the "Academy") as of and for the year ended June 30, 2009, as listed in the table of contents. These revised basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these revised basic financial statements based on our audit.

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

In our opinion, the revised basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2009 and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Board of Directors
George A. Phillips Academy

As more fully described in Note 15, subsequent to the issuance of the Academy's June 30, 2009 financial statements and our report thereon dated January 8, 2010, we became aware that those financial statements did not reflect a liability owed to the State of Ohio for an adjustment to state foundation funding. In our original report, we expressed an unqualified opinion on the 2009 financial statements, and our opinion on the revised statements, as expressed herein, remains unqualified.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2010 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

April 12, 2010

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

To the Board of Directors
George A. Phillips Academy

We have audited the revised basic financial statements of George A. Phillips Academy as of and for the year ended June 30, 2009 and have issued our report thereon dated April 12, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered George A. Phillips Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of George A. Phillips Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of George A. Phillips Academy's internal control over financial reporting.

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

To the Board of Directors
George A. Phillips Academy

- The Ohio Department of Education (ODE) reviews enrollment data and full-time equivalency (FTE) calculations made by schools. These reviews ensure schools are reporting accurate student enrollment data to the State of Ohio, upon which state foundation funding is calculated. For fiscal year 2009, the Academy did not record a liability related to any adjustment in funding that might occur as a result of this review, and instead disclosed the possibility of such an adjustment as a contingency in the originally issued financial statements. The Academy stated in the contingencies footnote that in the opinion of management, any changes to enrollment data would not have a material adverse effect on the overall financial position of the Academy at June 30, 2009. However, the adjustment of \$21,121, as calculated by the ODE, resulted in the originally issued financial statements being materially misstated.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether George A. Phillips Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain other matters that we have reported to the management of George A. Phillips Academy in a separate letter dated April 12, 2010.

George A. Phillips Academy's response to the finding identified above is included with the finding. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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

Plante & Moran, PLLC

April 12, 2010

George A. Phillips Academy

Management's Discussion and Analysis

The management's discussion and analysis of George A. Phillips Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- In total, net assets (deficit) decreased \$63,889, which represents a 139 percent decrease from 2008. This decrease was due primarily to operating expenses exceeding revenue, resulting in the addition of long-term liabilities in 2009 for rent.
- Total assets decreased \$67,440, which represents a 37 percent decrease from 2008. This decrease was primarily due to the decrease in current assets, mostly accounts receivable for grants.
- Liabilities decreased \$3,551, which represents a 3 percent decrease from 2008. This decrease was due to decreased management fees payable at 2009 year end.

Using this Financial Report

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

Statement of Net Assets (Deficit)

The statement of net assets (deficit) answers the question, "How did we do financially during 2009?" This statement includes all assets and liabilities, both financial and capital and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

George A. Phillips Academy

Management's Discussion and Analysis (Continued)

Table I provides a summary of the Academy's net assets (deficit) for fiscal years 2009 and 2008:

TABLE I	Governmental Activities	
	June 30	
	2009	2008
Assets		
Current assets	\$ 67,534	\$ 125,207
Capital assets - Net	<u>46,289</u>	<u>56,056</u>
Total assets	113,823	181,263
Liabilities		
Current liabilities	75,238	135,329
Long-term liabilities	<u>56,540</u>	<u>-</u>
Total liabilities	<u>131,778</u>	<u>135,329</u>
Net Assets (Deficit)		
Invested in capital assets	46,289	56,056
Unrestricted	<u>(64,244)</u>	<u>(10,122)</u>
Total net assets (deficit)	<u>\$ (17,955)</u>	<u>\$ 45,934</u>

Total assets decreased by \$67,440. This was primarily due to the decrease in accounts receivable for federal grants. Cash decreased by \$6,492 from 2008. Intergovernmental receivables decreased by \$47,478. Capital assets, net of depreciation, decreased by \$9,767 primarily due to the depreciation of furniture, fixtures, equipment, library books, and leasehold improvements.

George A. Phillips Academy

Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets (deficit) for fiscal years 2009 and 2008, as well as a listing of revenues and expenses.

TABLE 2	Governmental Activities	
	Year Ended June 30	
	2009	2008
Operating Revenues		
Foundation payments	\$ 540,199	\$ 582,946
Poverty Based Assistance	85,972	99,575
Other	2,690	4,115
Nonoperating Revenues		
Federal grants	214,459	203,651
State grants	4,309	8,029
Total revenues	847,629	898,316
Operating Expenses		
Salaries	288,102	301,044
Fringe benefits	104,413	87,189
Purchased services	471,702	512,545
Materials and supplies	19,020	44,604
Depreciation (unallocated)	22,952	26,556
Other expenses	2,707	2,095
Nonoperating Expenses		
Taxes	1,588	5,631
Interest	1,034	2,106
Total expenses	911,518	981,770
Decrease in Net Assets (Deficit)	\$ (63,889)	\$ (83,454)

Net assets (deficit) decreased by \$63,889. There was a decrease in revenues of \$50,687 and a decrease in expenses of \$70,252 from 2008. Of the decrease in revenues, the foundation payments decreased by \$42,747 and federal grant revenue increased by \$10,808. Community schools receive no support from tax revenues.

George A. Phillips Academy

Management's Discussion and Analysis (Continued)

The expense for salaries decreased by \$12,942 and the expense for fringe benefits increased by \$17,224 from 2008; this was primarily due to more full-time substitute teachers in place of salaried teachers and more employees opting for full family benefits. Material and supplies expense decreased by \$25,584 from 2008 due to the decrease in the need for supplies. Depreciation expense decreased by \$3,604.

Capital Assets

At the end of fiscal year 2009, the Academy had \$46,289 invested in furniture, fixtures, and equipment, which represented a decrease of \$9,767 from 2008. Table 3 shows the capital assets (net of depreciation) for fiscal years 2009 and 2008:

TABLE 3	2009	2008
Furniture, fixtures, and equipment	<u>\$ 46,289</u>	<u>\$ 56,056</u>

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

Current Financial Issues

George A. Phillips Academy was formed in 2003 under a contract with the Ohio Council of Community Schools. During the 2008-2009 school year, there were 82 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Poverty Based Assistance) for fiscal year 2009 amounted to \$626,171.

Contacting the School's Financial Management

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

George A. Phillips Academy

Revised Statement of Net Assets (Deficit) June 30, 2009

Assets

Current assets:

Cash (Note 3)	\$ 7,348
Intergovernmental receivables (Note 4)	39,147
Prepaid expenses	<u>21,039</u>

Total current assets 67,534

Noncurrent assets - Depreciable capital assets - Net (Note 5) 46,289

Total assets 113,823

Liabilities

Current:

Accounts payable	16,697
Intergovernmental payable	14,081
Contracts payable (Note 12)	44,333
Deferred revenue	<u>127</u>

Total current liabilities 75,238

Noncurrent:

Intergovernmental payable	7,040
Contract payable (Note 11)	<u>49,500</u>

Total noncurrent liabilities 56,540

Total liabilities 131,778

Net Assets (Deficit)

Invested in capital assets	46,289
Unrestricted	<u>(64,244)</u>
Total net deficit	<u>\$ (17,955)</u>

George A. Phillips Academy

Revised Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2009

Operating Revenues	
Foundation payments	\$ 540,199
Poverty Based Assistance	85,972
Other revenues	<u>2,690</u>
Total operating revenues	628,861
Operating Expenses	
Salaries	288,102
Fringe benefits	104,413
Purchased services (Note 10)	471,702
Materials and supplies	19,020
Depreciation	22,952
Other	<u>2,707</u>
Total operating expenses	<u>908,896</u>
Operating Loss	(280,035)
Nonoperating Revenues (Expenses)	
Federal grants	214,459
State grants	4,309
Federal and state taxes	(1,588)
Interest	<u>(1,034)</u>
Total nonoperating revenues	<u>216,146</u>
Change in Net Assets (Deficit)	(63,889)
Net Assets - Beginning of year	<u>45,934</u>
Net Deficit - End of year	<u><u>\$ (17,955)</u></u>

George A. Phillips Academy

Revised Statement of Cash Flows Year Ended June 30, 2009

Cash Flows from Operating Activities

Received from foundation payments	\$ 561,320
Received from Poverty Based Assistance	85,972
Received from other operating revenues	2,655
Payments to suppliers for goods and services	(490,844)
Payments to employees for services	(299,121)
Payments for employee benefits	<u>(104,413)</u>

Net cash used in operating activities (244,431)

Cash Flows from Noncapital Financing Activities

Proceeds from state aid note	75,000
Interest expense	(1,034)
Payments on state aid note	(87,500)
Federal grants received	221,477
State grants received	4,309
Federal and state taxes	<u>38,872</u>

Net cash provided by noncapital financing activities 251,124

Cash Flows from Capital Activities - Payments for capital acquisitions

(13,185)

Net Decrease in Cash (6,492)

Cash - Beginning of year 13,840

Cash - End of year \$ 7,348

Noncash Noncapital Financing Activities - During the year ended June 30, 2009, there was a noncash noncapital financing activity for \$49,500 related to accrued rent liability as disclosed in Note 11.

George A. Phillips Academy

Revised Statement of Cash Flows (Continued) Year Ended June 30, 2009

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (280,035)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	22,952
Changes in assets and liabilities:	
Decrease in prepaid expenses	3,703
Decrease in deferred revenue	(35)
Decrease in accounts payable	(15,914)
Increase in intergovernmental payable	21,121
Increase in contracts payable	<u>3,777</u>
Total adjustments	<u>35,604</u>
Net cash used in operating activities	<u><u>\$ (244,431)</u></u>

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 1 - Description of the Academy and Reporting Entity

George A. Phillips Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through eighth. The Academy's mission is to provide an atmosphere where students will develop a thirst for learning, creative expression, and awareness of new horizons. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, and social interactions. Staff, students, and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

On April 2, 2003, the Academy was approved for operation under contract with the Ohio Council of Community Schools (the "Sponsor") for a period of five years through June 30, 2007. The contract has since been renewed for a period of seven years through June 30, 2014. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The total sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2009 were approximately \$19,000.

The Academy operates under the direction of a five-member board of directors which is also the governing board for another The Leona Group, LLC managed school. The board of directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The board of directors controls the Academy's instructional/support facility staffed by nine certificated full-time teaching personnel who provide services to 82 students.

The governing board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of the Academy. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel, and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year end fee (see Note 12).

Note 2 - Summary of Significant Accounting Policies

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

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

The Academy's basic financial statements consist of a statement of net assets (deficit), a statement of revenues, expenses, and changes in net assets (deficit), and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets (deficit), financial position, and cash flows.

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

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

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

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Expenses are recognized at the time they are incurred.

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

Intergovernmental Receivable - Receivables at June 30, 2009 consists of inter-governmental receivables. All receivables are considered collectible in full and will be received within one year.

Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond June 30, 2009 are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Capital Assets - Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$1,000 for furniture and equipment, land, and buildings, or any one item costing under \$1,000 alone but purchased in a group for over \$2,500. Software costing more than \$10,000 per application will also be capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged to expense when incurred.

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 2 - Summary of Significant Accounting Policies (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture, fixtures, and equipment	3-7 years
------------------------------------	-----------

Intergovernmental Payable - The payable at June 30, 2009 consists of an inter-governmental payable related to the Ohio Department of Education's annual review of enrollment data and full-time equivalency of the Academy. The payable is due to the Ohio Department of Education and will be removed from the Academy's monthly foundation payments from the State of Ohio in 18 equal installments beginning in January 2010.

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

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

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

Intergovernmental Revenues - The Academy currently participates in the State Foundation Program and the State Poverty Based Assistance (PBA) program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 3 - Deposits

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial credit risk are used for the Academy's deposits; however, the Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. In October 2008, the FDIC implemented the "Transaction Account Guarantee Program," fully guaranteeing noninterest and some interest-bearing checking account balances through December 31, 2009, regardless of the amount in the account. At June 30, 2009, the Academy's deposit balance of \$9,812 had no bank deposits (checking and savings accounts) that were uninsured and uncollateralized.

Note 4 - Intergovernmental Receivables

Receivables at June 30, 2009 consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

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

Title I	\$	32,095
Title II-A		130
Title IV		109
Child Nutrition		<u>6,813</u>
Total intergovernmental receivables	\$	<u><u>39,147</u></u>

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Disposals	Balance June 30, 2009
Business-type Activity				
Capital assets being depreciated - Furniture, fixtures, and equipment	\$ 206,440	\$ 13,185	\$ -	\$ 219,625
Less accumulated depreciation - Furniture, fixtures, and equipment	<u>150,384</u>	<u>22,952</u>	<u>-</u>	<u>173,336</u>
Total capital assets being depreciated - Net	<u>\$ 56,056</u>	<u>\$ (9,767)</u>	<u>\$ -</u>	<u>\$ 46,289</u>

Note 6 - Risk Management

Property and Liability - The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the Academy contracted with Employers Mutual Casualty Company for general liability, property insurance, and educational errors and omissions insurance. Settled claims relating to insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Coverages are as follows:

Educational errors and omissions:

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

General liability:

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

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

Note 7 - Defined Benefit Pension Plans

School Employee Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary, and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund healthcare benefits; for fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' retirement board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$5,348, \$3,957, and \$11,620, respectively; 47 percent has been contributed for fiscal year 2009; 100 percent has been contributed for fiscal years 2008 and 2007.

State Teachers Retirement System

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

Note 7 - Defined Benefit Pension Plans (Continued)

New members have a choice of three retirement plans: a defined benefit (DB) plan, a defined contribution (DC) plan, and a combined plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. The combined plan offers features of both the DC plan and the DB plan. In the combined plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. The DB portion of the combined plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$30,285, \$29,256, and \$66,646, respectively; 100 percent has been contributed for fiscal years 2009, 2008, and 2007. Contributions to the DC and combined plans for fiscal year 2009 were \$32,391 made by the Academy and \$23,136 made by the plan members.

Note 8 - Postemployment Benefits

School Employee Retirement System

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

State statute permits SERS to fund the healthcare benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the retirement board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$2,448, \$1,806, and \$2,717, respectively; 47 percent has been contributed for fiscal year 2009; 100 percent has been contributed for fiscal years 2008 and 2007.

The retirement board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$441, \$285, and \$95, respectively; 47 percent has been contributed for fiscal year 2009; 100 percent has been contributed for fiscal years 2008 and 2007.

Note 8 - Postemployment Benefits (Continued)

State Teachers Retirement System

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

Ohio law authorizes STRS Ohio to offer the plan and gives the retirement board authority over how much, if any, of the healthcare costs will be absorbed by STRS Ohio. Active employee members do not contribute to the plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$2,330, \$2,250, and \$5,127, respectively; 100 percent has been contributed for fiscal years 2009, 2008, and 2007.

Note 9 - Contingencies

Grants - The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2009.

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 10 - Purchased Service Expenses

For the year ended June 30, 2009, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	\$	6,889
Legal		8,620
Insurance		16,418
Advertising		4,123
Dues and fees		6,219
Ohio Council of Community Schools		19,419
The Leona Group, LLC (Note 12)		103,882
Cleaning services		1,660
Utility		54,045
Other professional services		122,162
Other rentals and leases		7,265
Building lease agreements		<u>121,000</u>
Total purchased services	\$	<u>471,702</u>

Note 11 - Operating Leases

The Academy entered into a lease for the period from August 18, 2008 through June 30, 2013 with The Leona Group, LLC to lease its facilities. Lease expense for the year ended June 30, 2009 was \$121,000. Subsequent to year end, the Academy signed an amendment to the lease agreement, which deferred \$66,000 of lease payments for the period from January 1, 2009 through June 30, 2009. The deferred payments will be equally applied through the remaining months of the lease commencing July 1, 2009. At June 30, 2009, the deferred lease payments are recorded as liabilities included in contracts payable (\$16,500) and long-term contracts payable (\$49,500).

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 11 - Operating Leases (Continued)

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2009:

Fiscal Years Ending June 30	Amount
2010	\$ 148,500
2011	148,500
2012	148,500
2013	148,500
Total minimum lease payments	<u>\$ 594,000</u>

Note 12 - Management Agreement

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. The management agreement was renewed effective July 13, 2007 for a period of seven years to continue through June 30, 2014. In exchange for its services, TLG receives a capitation fee of 12 percent of the per pupil expenditures and a year-end fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The Academy incurred management fees totaling \$103,882 for the year ended June 30, 2009. At June 30, 2009, contracts payable include \$4,287 for the payment of management fees, and approximately \$40,000 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require TLG to provide the following:

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

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 12 - Management Agreement (Continued)

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

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

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

For the year ended June 30, 2009, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:

Salaries	\$ 288,102
Fringe benefits	104,413
Professional and technical services	33,143
Other direct costs	<u>13,974</u>
Total direct expenses	<u>\$ 439,632</u>

Note 13 - State Aid Note

During the fiscal year, the Academy borrowed \$75,000 in a state aid note. The note bore interest at a variable annual interest rate equal to the prime rate, adjusted monthly. The effective rate was 3.25 percent at June 30, 2009 and the note was paid in full on June 30, 2009.

Note 14 - Management Plans

The Academy's student enrollments for the 2008-2009 school year and at the beginning of the 2009-2010 school year were substantially below the Academy's initial forecast and below the level necessary for the Academy to function financially without financial assistance from the management company.

George A. Phillips Academy

Notes to Revised Financial Statements June 30, 2009

Note 14 - Management Plans (Continued)

The Academy has entered into an agreement with the management company, whereby the management company has agreed to provide sufficient working capital to enable the Academy to operate during 2010. In addition, the Academy has undertaken an extensive marketing campaign to increase enrollment during 2010.

Note 15 - Revised Financial Statements

Subsequent to the issuance of the Academy's financial statements, management became aware that the State's annual review of the Academy's enrollment data and full-time equivalency calculations had resulted in a reduction in state funding, and amounts were owed back to the State as of June 30, 2009. At the time of the original financial statement issuance, management's opinion was that any changes resulting from the annual review would not have a material effect on the financial statements.

The recognition of this liability in the revised financial statements has the effect of increasing current liabilities by \$21,121 at June 30, 2009 and reducing revenues for the year by the same amount. As a result of the change, net assets are in a deficit position of \$17,955 at June 30, 2009.

Note 16 - Subsequent Events

Subsequent to year end, the Academy borrowed \$250,000 at a variable interest rate equal to the prime rate, adjusted monthly, on a state aid anticipation note. The note, plus interest, is due June 30, 2010.

Independent Accountant's Report on Applying Agreed-upon Procedures

George A. Phillips Academy
Lucas County
3648 Victory Ave.
Toledo, Ohio 43607

To the Board of Directors:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the board, solely to assist the board in evaluating whether George A. Phillips Academy (the “School”) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the board adopted an anti-harassment policy at its meeting on November 12, 2009.
2. We read the policy, noting it included the following requirements from Ohio Rev.Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666
 - (3) A procedure for reporting prohibited incidents
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident
- (6) A procedure for documenting any prohibited incident that is reported
- (7) A procedure for responding to and investigating any reported incident
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the board and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

January 8, 2010



Mary Taylor, CPA
Auditor of State

GEORGE A PHILLIPS ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 6, 2010**