PHOENIX ACADEMY
LUCAS COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Dave Yost • Auditor of State

PHOENIX ACADEMY
LUCAS COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Academy
Lucas County
1505 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited the accompanying basic financial statements of Phoenix Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Academy, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 other assurance.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost

Dave Yost
Auditor of State

April 19, 2013

PHOENIX ACADEMY
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
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, 2012. 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 2012 are as follows:

- In total, net assets were $4,227,505, at June 30 2012.
- The Academy had operating revenues of $4,770,182 and operating expenses of $4,592,021 for fiscal year 2012. The Academy also received $536,937 in federal grants during fiscal year 2012.

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 assets and statement of revenues, expenses and changes in net assets 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 Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of revenues, expenses and changes in net assets 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 assets and changes in those assets. This change in net assets 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.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

The table below provides a comparison of the Academy's net assets for fiscal years 2012 and 2011.

Net Assets

	2012	2011
Assets:		
Current assets	$ 2,543,599	$ 2,977,601
Non-current assets	2,275,985	2,263,446
Total assets	4,819,584	5,241,047
Liabilities:		
Current liabilities	592,079	1,740,059
Total liabilities	592,079	1,740,059
Net assets:		
Invested in capital assets	2,275,985	2,263,446
Restricted	818,121	1,186,323
Unrestricted	1,133,399	51,219
Total net assets	$ 4,227,505	$ 3,500,988

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Academy's net assets totaled $4,227,505, of which $818,121 is restricted in use.

At fiscal year-end, capital assets represented 47.22% of total assets. Capital assets consisted of buildings and furniture, fixtures and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2012, were $2,275,985. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Total assets decreased by $421,463, which represents a 8.04% decrease from fiscal year 2011. Cash and cash equivalents decreased by $464,558. The Academy made payments on several outstanding liabilities to Toledo Public Schools during the year, which is the reason cash decreased. Total liabilities decreased by $1,147,980, which represents a 65.97% decrease from 2011 primarily due to decreased amounts payable to Toledo Public Schools (the Academy's sponsor). The Academy's net assets increased $726,517.

The table below provides a comparative analysis of the changes in net assets for fiscal years 2012 and 2011.

Change in Net Assets

	2012	2011
Operating revenues:		
State foundation	$ 4,311,442	$ 4,479,883
Special education	371,963	521,431
Classroom fees	82,384	167,085
Other operating revenues	4,393	5,006
Total operating revenue	4,770,182	5,173,405
Operating expenses:		
Salaries	254,297	285,488
Fringe benefits	30,024	46,613
Purchased services	3,983,433	4,755,781
Materials and supplies	207,848	194,755
Depreciation	82,280	82,516
Other	34,139	12,277
Total operating expenses	4,592,021	5,377,430
Non-operating revenues:		
Federal and state grants	536,937	1,232,465
Insurance claim	7,797	-
Interest	3,622	6,437
Total non-operating revenues/expenses	548,356	1,238,902
Change in net assets	726,517	1,034,877
Net assets at beginning of year	3,500,988	2,466,111
Net assets at end of year	$ 4,227,505	$ 3,500,988

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

There was a decrease in revenues of $1,093,769 and a decrease in expenses of $785,409 from fiscal year 2011. Of the decrease in revenues, foundation payments and special education decreased $317,909 and federal and state grant revenue decreased by $695,528. The decrease in foundation revenue is due to declining enrollment and the decrease in federal and state grant revenue is due to the end of Federal Stimulus grants at the end of fiscal year 2011. The decrease in expenses is due to a reduction in amount payable to Toledo Public Schools per the sponsorship agreement.

The Academy owes $586,258 to Toledo Public Schools for Sponsor fees, excess balance fees and other purchased services.

Capital Assets

At the end of fiscal year 2012, the Academy had $2,275,985 (net of $285,009 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 2012 and 2011:

Capital Assets at June 30
(Net of Depreciation)

	2012	2011
Building	$ 2,246,110	$ 2,233,879
Furniture, fixtures and equipment	29,875	29,567
Total	$ 2,275,985	$ 2,263,446

Current Financial Related Activities

The Academy was formed in 2003 and is sponsored by Toledo Public Schools. During the 2011-2012 fiscal year, there were approximately 671 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 Ms. Deb Ford, Interim Treasurer, Phoenix Academy, 1505 Jefferson Avenue, Toledo, Ohio 43604.

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 1,895,582
Intergovernmental Receivables	514,943
Prepayments	133,074
Total Current Assets	2,543,599
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	2,275,985
Total Assets	4,819,584
Liabilities:	
Current Liabilities:	
Accounts Payable	1,885
Accounts Payable to Toledo Public Schools	586,258
Intergovernmental Payable	3,936
Total Current Liabilities	592,079
Net Assets:	
Invested in Capital Assets	2,275,985
Restricted for:	
Restricted for locally funded programs	672,637
Restricted for state programs	5,185
Restricted for federal programs	140,299
Unrestricted	1,133,399
Total Net Assets	$ 4,227,505

See Accompanying Notes to the Basic Financial Statements

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenues:	
Foundation Payments	$ 4,311,442
Special Education	371,963
Classroom Fees	82,384
Other Operating Revenues	4,393
Total Operating Revenues	4,770,182
Operating Expenses:	
Salaries	254,297
Fringe Benefits	30,024
Purchased Services	3,983,433
Materials and Supplies	207,848
Depreciation	82,280
Other Operating Expenses	34,139
Total Operating Expenses	4,592,021
Operating Income	178,161
Non-Operating Revenues:	
Operating Grants - Federal	536,937
Interest	3,622
Insurance Claim	7,797
Total Non-Operating Revenues	548,356
Change in Net Assets	726,517
Net Assets Beginning of Year	3,500,988
Net Assets End of Year	$ 4,227,505

See Accompanying Notes to the Basic Financial Statements

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Decrease in Cash and Cash Equivalents

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 4,630,828
Cash Received from Classroom Fees	82,384
Cash Received from Other Operating Sources	4,393
Cash Payments to Employees for Services	(254,297)
Cash Payments for Employee Benefits	(42,707)
Cash Payments for Purchased Services	(5,151,648)
Cash Payments for Materials and Supplies	(178,182)
Cash Payments for Other Expenses	(37,065)
Net Cash Used for Operating Activities	(946,294)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Grants and Subsidies	565,136
Cash Received from Insurance Claim	7,797
Net Cash Provided by Noncapital Financing Activities	572,933
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(94,819)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	3,622
Net Decrease in Cash and Cash Equivalents	(464,558)
Cash and Cash Equivalents at Beginning of Year	2,360,140
Cash and Cash Equivalents at End of Year	$ 1,895,582

(Continued)

PHOENIX ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)

Reconciliation of Operating Income to Net Cash Used for Operating Activities:	
Operating Income	$ 178,161
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities:	
Depreciation	82,280
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(7,384)
Increase in Prepayments	(51,371)
Decrease in Accounts Payable	(6,725)
Decrease in Intergovernmental Payable	(60,802)
Decrease in Accounts Payable to Toledo Public Schools	(1,080,453)
Total Adjustments	(1,124,455)
Net Cash Used for Operating Activities	$ (946,294)

See Accompanying Notes to the Basic Financial Statements

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 Academy has 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. The current contract is effective through June 30, 2014.

The Academy operates under the direction of a five 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 14 non-certified staff members and 27 certified full time teaching personnel who provide services to 671 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 also applies Financial Accounting Standards Board (FASB) guidance issued prior to November 30, 1989, provided the guidance does not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB guidance issued after November 30, 1989, subject to this same limitation. The Academy has elected not to apply this FASB guidance. 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 assets, 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.

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 assets. 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. 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.

E. 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 assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

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

During fiscal year 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). The Academy has invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold for on June 30, 2012.

F. 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 fair market 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:

Description	Estimated Lives
Buildings	40 years
Furniture, fixtures and equipment	5 years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount of net assets restricted include the amounts reserved for locally funded programs, state funded programs and federally funded programs.

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

H. Prepaid Items

Payments made to vendors for services that will benefits periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which services are consumed.

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

I. Operating Revenues and Expenses

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

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation 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 2012 was $4,683,405.

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 and State grants for fiscal year 2012 received by the Academy were $536,937.

K. 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 2012, the Academy has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Academy.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 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, 2012, the carrying amount of all Academy deposits was $870,309. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, $250,000 of the Academy's bank balance of $964,552 was covered by the Federal Deposit Insurance Corporation and $714,552 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, 2012, the Academy had the following investments and maturities:

		Investment Maturities
Investment type	Fair Value	6 months or less
STAR Ohio	$ 1,025,273	$ 1,025,273

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.

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, 2012:

Investment type	Fair Value	% of Total
STAR Ohio	$ 1,025,273	100.00

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets

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 assets as of June 30, 2012:

Cash and cash equivalents per note	
Carrying amount of deposits	$ 870,309
Investments	1,025,273
Total	$ 1,895,582
Cash and cash equivalents per statement of net assets	$ 1,895,582

NOTE 5 - RECEIVABLES

At June 30, 2012, receivables consisted of intergovernmental grants and entitlements. All receivables are considered collectible within one year.

	Receivable
FTE adjustment from ODE	$ 7,384
Education jobs	154,521
Title VI-B	166,505
Title II-D	2,511
Title I school improvement	31,616
Title I	143,119
Title IV-A	9,287
Total	$ 514,943

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Professional and technical services	$ 3,533,189
Property services & rentals	153,626
Travel mileage/meeting expense	19,025
Communications	114,729
Utilities	69,338
Tuition	10,201
Transportation services	83,325
Total	$ 3,983,433

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 06/30/11	Additions	Deductions	Balance 06/30/12
Capital assets, being depreciated:				
Building	$ 2,346,970	$ 72,723	$ -	$ 2,419,693
Furniture, fixtures and equipment	119,205	22,096	-	141,301
Total capital assets, being depreciated	2,466,175	94,819	-	2,560,994
Less: accumulated depreciation				
Building	(113,091)	(60,492)	-	(173,583)
Furniture, fixtures and equipment	(89,638)	(21,788)	-	(111,426)
Total accumulated depreciation	(202,729)	(82,280)	-	(285,009)
Capital assets, net	$ 2,263,446	$ 12,539	$ -	$ 2,275,985

NOTE 8 - 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. The Academy and Sponsor renewed the contract through June 30, 2014.

Total expenses paid to the Sponsor were $2,848,735 of which $586,258 is recognized as an amount due to the Sponsor at June 30, 2012. The total amount consists of sponsorship fees, which equaled three percent of foundation revenue, of $57,506, annual fees of $279,307, and $249,445 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.

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;

NOTE 8 - MANAGEMENT AGREEMENT - (Continued)

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 9 - 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 can be extended and was extended through fiscal year 2012. In fiscal year 2012, expense under the lease for the Academy totaled $23,840 with $5,488 for July, August and September 2012 recorded as a prepaid at June 30, 2012.

The Academy entered into a lease for the period September 19, 2005 through September 19, 2008 with McCord Plaza Development to lease additional space to house the Academy. The lease can be extended and was again extended through fiscal year 2012. In fiscal year 2012, expenses under the lease for the Academy totaled $23,484.

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 fiscal year 2012. In fiscal year 2012, expenses under the lease for the Academy totaled $36,000.

NOTE 10 - 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 2012, the Academy obtained insurance through broker Hylant Insurance with the following insurance coverage:

NOTE 10 - RISK MANAGEMENT - (Continued)

Property damage per occurrence	$	2,608,550
General liability coverage:		
Bodily injury and property damage limit		3,000,000
Personal and advertising injury limit		3,000,000
General aggregate limit		5,000,000
Fire damage limit - any one event		500,000
Medical expense - any one person or accident		10,000
Legal liability coverage:		
Errors and omissions injury limit		3,000,000
Aggregate		5,000,000
Fiduciary liability coverage:		
Each fiduciary claim limit		3,000,000
Aggregate		3,000,000
Employers' liability (Ohio stop gap):		
Bodily injury by accident		3,000,000
Bodily injury by disease		3,000,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There was a significant reduction in coverage from the prior year to fall in line with the requirements of the sponsorship agreement.

B. Workers' Compensation

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

NOTE 11 - 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 at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were $9,813, $9,978 and $8,670, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

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 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.

NOTE 11 - PENSION PLANS - (Continued)

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were $303,567, $344,592 and $297,707, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B 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. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was $96.40 for most participants, but could be as high as $369.10 per month depending on their income and the SERS' reimbursement to retirees was $45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care 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 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statute provides that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was $35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were $3,093, $2,226 and $1,305, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, 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, 2012, 2011, and 2010 were $580, $642 and $516, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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, under *"Publications"* 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 2012, 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, 2012, 2011 and 2010 were $23,351, $26,507 and $22,901, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Most employees of the Academy are employed by Toledo Public Schools. Policies and procedures are approved by the Toledo Public Schools Board of Education and are applied to compensated absences, insurance benefits, and deferred compensation of staff purchased from Toledo Public Schools by contract.

NOTE 14 - RELATED PARTY TRANSACTIONS

Joan Kuchcinski was a board member of both Polly Fox and Phoenix Academies that are sponsored by Toledo Public Schools. She is employed by Toledo Public Schools. Ms. Kuchcinski resigned from the Polly Fox and Phoenix Academies' boards on December 31, 2011. During fiscal year 2012, Ms. Kuchcinski received $875 in compensation as a board member of the Academy.

NOTE 15 - 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 is 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, 2012.

B. State Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State Foundation Funding is calculated. As a result of the review after fiscal year-end, the Academy was owed $7,384 from ODE. This amount is recorded as an intergovernmental receivable on the statement of net assets.

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.

This page intentionally left blank.

PHOENIX ACADEMY
LUCAS COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR ***Pass Through Grantor*** **Program Title**	**Federal CFDA Number**	**Receipts**	**Disbursements**
U.S. DEPARTMENT OF EDUCATION			
Passed Through the Ohio Department of Education:			
Title I Cluster:			
Title I Grants to Local Educational Agencies	84.010	$221,743	$199,462
ARRA - Title I Grants to Local Educational Agencies	84.389	67,434	129,344
Total Title I Cluster		289,177	328,806
Special Education Cluster:			
Special Education_Grants to States	84.027	59,220	163,988
ARRA - Special Education_Grants to States	84.391	39,415	26,397
Total Special Education Cluster		98,635	190,385
Safe and Drug-Free Schools and Communities_State Grants	84.186	55	
Education Technology State Grant	84.318		788
ARRA - State Fiscal Stabilization Fund	84.394		137,874
Education Jobs Fund	84.410	154,520	257,534
Total U.S. Department of Education		542,387	915,387
Total Federal Awards		**$ 542,387**	**$ 915,387**

The accompanying notes are an integral part of this schedule.

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Phoenix Academy's (the Academy's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

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

Phoenix Academy
Lucas County
1505 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Phoenix Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2012, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. We consider finding 2012-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated April 19, 2013.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State

April 19, 2013

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Phoenix Academy
Lucas County
1505 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

Compliance

We have audited the compliance of Phoenix Academy, Lucas County, Ohio (the Academy), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Phoenix Academy's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Academy's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with these requirements.

As described in findings 2012-002 through 2012-004 and 2012-006 through 2012-008 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding Allowable Costs/Cost Principles, Period of Availability, and Reporting applicable to its Title I Cluster major federal program; or the requirements regarding Activities Allowed or Unallowed and Cash Management applicable to its State Fiscal Stabilization Fund major federal program. Compliance with these requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Phoenix Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

The results of our auditing procedures also disclosed another instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as Finding 2012-009.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-002 through 2012-008 to be material weaknesses.

We also noted matters involving internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated April 19, 2013.

We intend this report solely for the information and use of the audit committee, management, Governing Board, the Academy's sponsor, others within the Academy, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

April 19, 2013

PHOENIX ACADEMY
LUCAS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Qualified
(d)(1)(vi)	**Are there any reportable findings under § .510(a)?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title I Cluster (CFDA #'s 84.010 and 84.389) ARRA - State Fiscal Stabilization Fund (CFDA # 84.394)
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

FINDING NUMBER 2012-001

Financial Reporting - Material Weakness

Sound financial reporting is the responsibility of the Treasurer and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The results of audit procedures identified an error in the accrual of Accounts Payable to Toledo Public Schools that required an audit adjustment in the amount of $664,915. The deficiency resulting in an audit adjustment consisted of not including Outreach Program Funds in the exclusion from Unencumbered

FINDING NUMBER 2012-001
(Continued)

Cash Balance when determining the amount payable to Toledo Public Schools.

The failure to record accurate financial activity on the financial statements and lack of appropriate review and approval could result in material misstatements and inaccurate financial reporting.

To ensure the Academy's financial statements are complete and accurate, the Academy should adopt policies and procedures, including the review of the GAAP compilation, to identify and correct errors and omissions.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Period of Availability

Finding Number	2012-002
CFDA Title and Number	Title I Cluster (CFDA #'s 84.010 and 84.389)
Federal Award Number / Year	91-0900-0-1-501 / FY 2011 and FY 2012
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance, Material Weakness and Questioned Cost

2 CFR section 215.28 states where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

Per the grant agreement, the following periods of availability applied during our audit period:

Grant	Obligation Period	Final Liquidation Date
FY 2011 Title I and Title I School Improvement	July 1, 2010 – June 30, 2011	September 30, 2011
ARRA FY 2011 Title I and Title I School Improvement	July 1, 2010 – September 30, 2011	September 30, 2011
FY 2012 Title I and Title I School Improvement	July 1, 2011 – June 30, 2012	September 30, 2012
ARRA FY 2012 Title I and Title I School Improvement	March 29, 2012 – September 30, 2012	September 30, 2012

In August 2011, the Academy ordered textbooks and charged a portion of the expenditure to the FY 2011 Title I grant in the amount of $6,796 and another portion to the FY 2011 Title I School Improvement grant in the amount of $1,997. The Academy purchased a high-capacity shredder and ordered computers in July 2012, ordered physical education items in August 2012, and paid for Toledo Public Schools purchased services from the month of July 2012 in September 2012; all of these expenditures were charged to the FY 2012 Title I grant in the amount of $45,380.

In September 2012, the Academy paid for TARTA bus passes totaling $3,750 out of the FY 2012 ARRA Title I grant. The invoice indicated these bus passes were from December 2011. The period of availability for the grant did not start until March 29, 2012. Therefore, these expenditures were not incurred during the period of availability.

FINDING NUMBER 2012-002
(Continued)

As a result of the issues noted above, $57,923 are considered questioned costs. The table below reflects the amount of the questioned costs from each award within the Title I Cluster.

Program/Award Year	Questioned Costs
FY 2011 Title I	$6,796
FY 2011 Title I School Improvement	1,997
FY 2012 Title I	45,380
FY 2012 ARRA Title I	3,750
Total	$57,923

Additionally, as noted in finding number 2012-004, the Academy paid Toledo Public Schools $101,594 for purchased services in September 2011. This expenditure was unsupported, therefore we were unable to determine if it met period of availability requirements. Of the amount expended, $37,249 was charged to the FY 2011 Title I grant and $64,345 was charged to the FY 2011 ARRA Title I School Improvement grant. These amounts are included in the questioned costs identified in Finding Number 2012-004 below.

Further, a portion of the Principal's salary paid from the FY 2011 Title I grant in the amount of $1,484 was for FY 2012 salary amounts. This amount is included in the questioned costs identified in Finding Number 2012-003 below.

We recommend the Academy carefully review the period of availability requirements for each grant, and make sure all obligations are made within the period of availability.

Allowable Costs/Cost Principles

Finding Number	2012-003
CFDA Title and Number	Title I Cluster (CFDA #'s 84.010 and 84.389)
Federal Award Number / Year	91-0900-0-1-501 / FY 2011 and FY 2012
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance, Material Weakness and Questioned Cost

2 CFR 225, Appendix B, subpart 8.h.4 states,
Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

FINDING NUMBER 2012-003
(Continued)

a. More than one Federal award,

b. A Federal award and a non-Federal award,

c. An indirect cost activity and a direct cost activity,

d. Two or more indirect activities which are allocated using different allocation bases, or

e. An unallowable activity and a direct or indirect cost activity.

The Academy charged a portion of the salary of the person with the responsibilities of a Principal amounting to $9,345. Of this amount, $4,673 of this was charged to the FY 2011 Title I program, and the remaining $4,672 was charged to the FY 2011 ARRA Title I program. There was no time and effort documentation to support the salary charged to the Title I program as required. Additionally, $1,484 of this amount was not obligated within the period of availability. (See Finding Number 2012-002 regarding period of availability).

2 CFR 225 Appendix B subpart 43a states, travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit.

The Academy paid for airfare expenses for Administrators out of Title I funds, including amounts for the Academy's Board President, the Academy's Treasurer, Treasurer's daughter and grandchild (neither of which are employees of the Academy), and the EMIS Coordinator. Additionally, the Academy paid for lodging expenses for Administrators out of Title I funds, including amounts for the Academy's Principal, Treasurer, EMIS Coordinator, and an employee of another school (Polly Fox Academy). Payments for these individuals do not support the overall program objectives, as these expenditures were for administrative personnel, and their family members, or employees of another school, instead of teachers, aides, or counselors that provide direct services to participating children.

The Academy charged airfare expenses totaling $2,428 for administrators and their family members. Reimbursements totaling $971 were paid back to the Academy for the Treasurer's daughter and grandchild. The net amount paid for administrators was $1,457. These amounts were paid out of the Title I School Improvement Fund for FY 2012. The Academy also charged lodging expenses totaling $2,436 for administrators. These amounts were paid out of the Title I Fund for FY 2012. As a result of the issues noted above, $3,893 are considered questioned costs.

The table below reflects the amount of the questioned costs from each award within the Title I Cluster.

Program/Award Year	**Questioned Costs**
FY 2011 Title I	$4,673
FY 2011 ARRA Title I	4,672
FY 2012 Title I	2,436
FY 2012 Title I School Improvement	1,457
Total	$13,238

FINDING NUMBER 2012-003
(Continued)

We recommend the Academy maintain time and effort documentation for all Academy employees whose salaries, or a portion thereof, are applied to the grant. The documentation should include after-the-fact distribution of the actual activity of each employee, the total activity for which each employee is compensated, must be prepared at least monthly and must coincide with one or more pay periods, and must be signed by the employee performing the work. Additionally, time and effort cannot be based on budget estimates or distribution percentages determined before the services are performed. Lastly, we recommend the Academy carefully review all expenditures to ensure only expenditures that are for a purpose the award permits and meet the allowable cost guidelines are charged to the program.

Allowable Costs/Cost Principles – Lack of Supporting Documentation

Finding Number	2012-004
CFDA Title and Number	Title I Cluster (CFDA #'s 84.010 and 84.389)
Federal Award Number / Year	91-0900-0-1-501 / FY 2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance, Material Weakness and Questioned Cost

2 CFR 225, Appendix A, subpart C.1.j. states for a cost to be allowable under Federal awards, costs must be adequately documented. The Academy pays Toledo Public Schools (TPS) for purchased services for personnel, including any related benefits, and for other services provided. TPS invoices the Academy for services provided. The Treasurer reviews these invoices and assigns costs accordingly. The Academy's Principal provides the Treasurer with a list of authorized personnel to charge to the various Federal programs, as well as a maximum salary amount, including benefits. In September of 2011, the Academy made a payment to Toledo Public Schools totaling $101,594. The check and supporting documentation were missing. Therefore we were unable to determine if the costs were in accordance with allowable costs/cost principles and occurred within the period of availability. (See Finding Number 2012-002 regarding period of availability).

As a result of the issue noted above, $101,594 are considered questioned costs. The table below reflects the amount of the questioned costs from each award within the Title I Cluster.

Program/Award Year	Questioned Costs
FY 2011 Title I	$37,249
FY 2011 ARRA Title I School Improvement	64,345
Total	$101,594

We recommend the Academy maintain supporting documentation for all Federal expenditures, which shows the obligation date(s), specifically identifies the related services or items purchased, as well as all related costs, and authorization information.

Approval of Federal Expenditures

Finding Number	2012-005
CFDA Title and Number	Title I Cluster (CFDA #'s 84.010 and 84.389)
Federal Award Number / Year	91-0900-0-1-501 / FY 2011 and FY 2012
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness

The Academy's Principal is responsible for reviewing and authorizing Title I expenditures, to ensure the expenditure is for an allowable program activity, is for an allowable program cost, and is charged to the appropriate grant period. Further, the Academy's Treasurer is responsible for reviewing the expenditures and determining if funds are available. Authorization is noted by the Principal and Treasurer's signature on the supporting purchase requisition.

Eleven percent of the transactions selected for testing did not have the prior approval of the Principal or of the Treasurer. As a result, there was no evidence these expenditures were reviewed for allowability, appropriateness of coding to the proper fiscal year, or availability of funds.

Failure to properly review and approve Federal expenditures could lead to unallowable program activities and costs being charged to the grant. Further, it could lead to expenditures being charged to a grant outside of the grant's period of availability. This contributed to the instances of noncompliance and questioned costs identified in Finding Numbers 2012-002 through 2012-004.

We recommend the Principal review all Title I expenditures to determine if the expense is for an allowable program activity, is for an allowable program cost, and to ensure the expenditure is being charged to the appropriate grant period, prior to the expense being made. We also recommend the Treasurer review and approve all expenditures, verifying the grant funds are available, prior to the expense being made.

Reporting – Graduation Cohort

Finding Number	2012-006
CFDA Title and Number	Title I Cluster (CFDA #'s 84.010 and 84.389)
Federal Award Number / Year	91-0900-0-1-501 / FY 2011 and FY 2012
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

FINDING NUMBER 2012-006
(Continued)

Noncompliance and Material Weakness

34 CFR 200.19(b)(2) states: (i) Prior to the deadline in paragraph (b)(4)(ii)(A) of this section, a State must calculate graduation rate as defined in paragraph (b) (1) of this section or use, on a transitional basis—(A) A graduation rate that measures the percentage of students from the beginning of high school who graduate with a regular high school diploma in the standard number of years; or (B) Another definition, developed by the State and approved by the Secretary, that more accurately measures the rate of student graduation from high school with a regular high school diploma. (ii) For a transitional graduation rate calculated under paragraph (b)(2)(i) of this section—(A) “Regular high school diploma” has the same meaning as in paragraph (b)(1)(iv) of this section; (B) “Standard number of years” means four years unless a high school begins after ninth grade, in which case the standard number of years is the number of grades in the school; and (C) A dropout may not be counted as a transfer.

The Ohio Department of Education (ODE) calculates the Graduation Rate based on information obtained from the Academy obtained through EMIS. Students are assigned to a graduation cohort when they begin the ninth grade or transfer in to the Academy. The only ways to be removed from a cohort are: the student transfers to another school in which they are able to obtain a high school diploma; the student emigrates to another country; or the student is deceased. In each case, supporting documentation must be obtained and maintained by the Academy to support the withdrawal code used. Students withdrawn due to truancy, who left to obtain a GED, or who were retained, remain in the original cohort. After ODE pulls all applicable data for the graduation rate, a process assigns a status code for each Statewide Student Identifier (SSID); the process also determines whether the student is included in the denominator and the numerator of the graduation rate.

Sixty-four percent of the students selected for testing were excluded from the cohort, but should not have been, since the student was withdrawn due to truancy/non-attendance, or who left to pursue their GED. For four of these students, ODE noted they were included in another District's graduation rate, however there was no evidence to support this and the withdrawal code indicated withdrawal. Three of the students in our sample were withdrawn due to transfer to another school district, which is reasonable. However, for these students, no official written documentation was on file with the Academy to confirm the student did in fact transfer out. Further, two additional students were reported as withdrawn, however they were attending other community schools and should have been shown as included in another District's graduation rate; ODE showed these students as included in another cohort, not included in another District's graduation rate. The Academy was unable to locate records for one of the students included in the sample. Lastly, for three of the students included in our sample that were properly excluded, ODE reported these students as included in another cohort instead of included in another District's graduation rate.

We recommend the Academy contact the Ohio Department of Education for guidance on the proper reporting of students within a cohort. Further, we recommend the Academy obtain written documentation for all students that transfer out of the Academy, emigrate to another country, or are deceased, and maintain this information in the permanent file for each student, to substantiate withdrawal codes in the system.

Cash Management – Timely Disbursements

Finding Number	2012-007
CFDA Title and Number	ARRA - State Fiscal Stabilization Fund (CFDA # 84.394)
Federal Award Number / Year	FY 2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness

34 CFR 80.20 (b)(7) states in part: "When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements." The Ohio Department of Education subsequently stated local educational agencies must have an internal control system in place to ensure advance State Fiscal Stabilization Fund (SFSF) payments are spent timely (i.e., within 30 days).

There is no evidence the Academy has taken steps to put an internal control system in place to ensure the timely expenditure of SFSF monies. As a result, the Academy maintained a cash balance in the SFSF funds and did not liquidate their SFSF monies in a timely manner. The Academy maintained ongoing cash fund balances and carried balances on the books for as long as 323 days before spending any monies; at fiscal year-end 2012, the Academy had been carrying cash balances on the books for as long as 598 days. There was no evidence the Academy had interest earnings on these funds in excess of $100.

We recommend the Academy develop an internal control system to ensure advanced federal payments are spent in a timely manner. Further, we recommend the Academy review Federal program requirements and monitor available cash fund balances to prevent Federal funds from accumulating and ensure funds are being spent within the time frame as prescribed by the grant agreement. Lastly, we recommend the Academy contact the Ohio Department of Education regarding SFSF monies still held by the Academy and determine the proper procedures for returning these funds.

Activities Allowed or Unallowed

Finding Number	2012-008
CFDA Title and Number	ARRA - State Fiscal Stabilization Fund (CFDA # 84.394)
Federal Award Number / Year	FY 2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

FINDING NUMBER 2012-008
(Continued)

Noncompliance, Material Weakness, and Questioned Cost

American Recovery and Reinvestment Act, Title XIV, Division A, Sections 14003 (b) and (c) state a local educational agency (LEA) may not use funds received under title for:

1. Payment of maintenance costs;

2. Stadiums or other facilities primarily used for athletic contests or exhibitions or other events for which admission is charged to the general public;

3. Purchases or upgrades of vehicles;

4. Improvement of stand-alone facilities whose purpose is not the education of children, including central office administration or operations or logistical support facilities; or,

5. School modernization, renovation, or repair that is inconsistent with State law.

The Academy charged the State Fiscal Stabilization Fund (SFSF) program $10,609 for a maintenance agreement for the Academy's heating and cooling systems. This type of expenditure does not meet the allowability guidelines for the program.

We recommend the Academy review the requirements of a grant to ensure expenditures are allowed from the grant. We recommend the Academy contact the Ohio Department of Education regarding repayment of these questioned costs, as this grant is now closed.

FINDING NUMBER 2012-009

Noncompliance

OMB Circular A-133 §.200, Audits of States, Local Governments and Non-Profit Organizations requires Non-Federal entities that expend $500,000 or more in a year in Federal awards to have a single audit or program-specific audit conducted for that year in accordance with the provisions of **OMB Circular A-133**.

OMB Circular A-133 §.320 requires the audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 days after receipt of the auditor’s report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

The Academy expended greater than $500,000 in Federal awards during fiscal year 2012 and did not have a single audit or a program-specific audit completed and filed by the nine month deadline. The Academy did not receive an extension to this filing requirement.

Officials’ Response:

We did not receive a response from Officials to the findings reported above.

This page intentionally left blank.

PHOENIX ACADEMY
LUCAS COUNTY

CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2012

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-001	Phoenix Academy will implement procedures to review the GAAP compilation before it is submitted to the Auditor of State.	Continuous	Ford/Cotner
2012-002	Phoenix Academy will carefully review the period of availability requirements for each grant, and make sure all obligations are made within the period of availability.	Continuous	Ford/Cotner
2012-003	Phoenix Academy will maintain time and effort documentation for all Academy employees whose salaries, or a portion thereof, are applied to the grant.	Continuous	Ford
2012-003	Phoenix Academy will review all expenditures to ensure only expenditures that are for a purpose the award permits and meet the allowable cost guidelines are charged to the program.	Continuous	Ford/Cotner
2012-004	Phoenix Academy will maintain proper supporting documentation for all Federal expenditures.	Continuous	Ford
2012-005	Phoenix Academy's Principal will review all Title I expenditures to determine if the expense is for an allowable program activity, is for an allowable program cost, and to ensure the expenditure is being charged to the appropriate grant period, prior to the expense being made.	Continuous	Cotner
2012-006	Phoenix Academy will contact the Ohio Department of Education and determine how the graduation rate calculation is performed, to ensure all students that should be included in the calculation are included. Further, the Academy will obtain written documentation for all students that transfer out of the Academy, emigrate to another country, or are deceased, and maintain this information in the permanent file for each student, to substantiate withdrawal codes in the system.	Continuous	Danielski
2012-007	Phoenix Academy will develop an internal control system to ensure advance federal payments are spent in a timely manner and within grant requirements. Phoenix Academy will contact ODE regarding SFSF monies still held and procedures for returning these funds.	Continuous	Ford/Cotner
2012-008	Phoenix Academy will contact ODE regarding repayment of questioned costs from SFSF grant since grant is now closed.	Continuous	Ford

2012-009	Phoenix Academy’s management will work with the Auditor of State in coordinating and scheduling future audits to accommodate completion of the audit within the prescribed deadline of nine months after the audit period.	03/31/14	Ford

PHOENIX ACADEMY
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2011-001	Ohio Rev. Code § 3314.03 (D) – Sponsor's monitoring of community school	Yes	

This page intentionally left blank.

Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Phoenix Academy
Lucas County
1505 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

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 procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Phoenix Academy (the Academy) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Academy amended its anti-harassment policy at its meeting on January 23, 2013 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 Governing Board and the Academy's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

April 19, 2013

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

This page intentionally left blank.

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
MAY 9, 2013

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov