FAMILY LEARNING CENTER
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

FAMILY LEARNING CENTER
LUCAS COUNTY

TABLE OF CONTENTS

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Family Learning Center
Lucas County
1501 Monroe Street, 2nd Floor
Toledo, Ohio 43624-1752

To the Governing Board:

We have audited the Balance Sheet of the Family Learning Center, Lucas County, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2003. These financial statements are the responsibility of the School'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 *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 financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

One Government Center / Room 1420 / Toledo, OH 43604-2246
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In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Betty Montgomery

Betty Montgomery
Auditor of State

May 18, 2004

FAMILY LEARNING CENTER
LUCAS COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003

Assets		
Current Assets		
Cash and Cash Equivalents with Fiscal Agent	$	10,465
Accounts Receivable		219
Intergovernmental Receivable		101,597
Prepaid Items		352
Total Current Assets		112,633
Non-Current Assets		
Security Deposit		13,180
Fixed Assets (Net of Accumulated Depreciation)		52,270
Total Non-Current Assets		65,450
Total Assets	$	178,083
Liabilities and Equity		
Current Liabilities		
Accounts Payable	$	26,261
Accrued Wages Payable		47,516
Compensated Absences Payable		20,703
Intergovernmental Payable		25,274
Accrued Interest Payable		474
Notes Payable		63,000
Capital Lease Payable		3,282
Total Current Liabilities		186,510
Long-Term Liabilities		
Capital Lease Payable		3,164
Total Liabilities		189,674
Equity		
Accumulated Deficit		(11,591)
Total Equity		(11,591)
Total Liabilities and Equity	$	178,083

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues	
Foundation Payments	$ 939,533
Disadvantaged Pupil Impact Aid	20,907
Special Education	85,562
Food Services	16,485
Classroom Materials and Fees	3,918
Other Operating Revenues	2,368
Total Operating Revenues	1,068,773
Operating Expenses	
Salaries	784,583
Fringe Benefits	204,420
Purchased Services	304,067
Materials and Supplies	89,752
Depreciation	19,705
Other Operating Expenses	5,463
Total Operating Expenses	1,407,990
Operating Loss	(339,217)
Non-Operating Revenues and (Expenses)	
Grants - Federal	340,025
Grants - State	18,918
Interest Earnings	718
Interest Expense and Fiscal Charges	(4,158)
Total Non-Operating Revenues and (Expenses)	355,503
Net Income	16,286
Accumulated Deficit at Beginning of Year	(27,877)
Accumulated Deficit at End of Year	$ (11,591)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows Used from Operating Activities	
Cash Received from State of Ohio	$ 1,047,675
Cash Received from Customers	16,485
Cash Received from Classroom Materials and Fees	3,843
Cash Received from Other Operating Sources	2,224
Cash Payments to Suppliers for Goods and Services	(369,274)
Cash Payments to Employees for Services	(776,313)
Cash Payments to Employee Benefits	(216,195)
Net Cash Used for Operating Activities	(291,555)
Cash Flows Provided from Noncapital Financing Activities	
Grants - Federal	262,503
Grants - State	18,918
Proceeds from Sale of Notes	65,000
Principal Payments	(42,974)
Interest Payments and Fiscal Charges	(3,684)
Net Cash Provided by Noncapital Financing Activities	299,763
Cash Flows Provided from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(11,436)
Net Cash Provided by Capital and Related Financing Activities	(11,436)
Cash Flows Provided from Investing Activities	
Interest on Investments	718
Net Cash Provided by Investing Activities	718
Net Decrease in Cash and Cash Equivalents	(2,510)
Cash and Cash Equivalents at the Beginning of the Year	12,975
Cash and Cash Equivalents at the End of the Year	$ 10,465

(Continued)

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

Reconciliation of Operating Loss to
Net Cash Used for Operating Activities

Operating Loss	$ (339,217)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	19,705
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(219)
Decrease in Intergovernmental Receivable	1,673
Decrease in Prepaid Items	5,997
Decrease in Inventory Held for Resale	300
(Increase) in Security Deposit	(4,880)
Increase in Accounts Payable	28,591
(Decrease) in Accrued Wages Payable	(10,186)
Increase in Compensated Absences Payable	12,618
(Decrease) in Intergovernmental Payable	(5,937)
Total Adjustments	47,662
Net Cash Used for Operating Activities	$ (291,555)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Family Learning Center (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(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 School's tax-exempt status. The School's objective is to serve students who are not thriving in a traditional setting, desire meaningful learning experiences and wish to regain a level of control over their educational experience. The School encompasses a safe community environment, discovery-based methods, parenting education, and critical thinking and problem solving. The School's programs are currently available to students in grades 7 - 12. The School, 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 School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing May 30, 2000, with operations starting in July of 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School, (see note 14).

The School operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 15 non-certified personnel and 16 certificated teaching personnel who provide services to 184 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. 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 is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. 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 School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the School are accounted for by the School's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the School's name.

For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture, equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2003 school year totaled $1,404,945.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Compensated Absences

Vacation benefits, personal and professional leave are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation, personal and professional time when earned for all employees.

J. Security Deposit

The School entered into a lease for the use of a building for the operation of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. In addition, the School was required to pay a deposit for use of a water cooling system. These deposits totaling $13,180 are held by the lessor and vendor.

3. DEPOSITS AND INVESTMENTS

At June 30, 2003, the carrying amount of the School's deposits was $10,465 and the bank balance was $60,137. The bank balance was covered by federal depository insurance.

4. ACCUMULATED DEFICIT AND OPERATING LOSSES

The School is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating losses.

5. RECEIVABLES

Receivables at June 30, 2003, consisted of account receivable and intergovernmental (e.g. foundation, DPIA, federal and state grants) receivables. Accounts receivables consist of other miscellaneous types of receipts and are considered collectible in full. Intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003, follows:

Leasehold Improvements	$ 34,513
Furniture and Equipment	64,012
Less: Accumulated Depreciation	(46,255)
Net Fixed Assets	$ 52,270

7. NOTES PAYABLE

On September 4, 2001, the School entered into a revolving line of credit note with a maximum amount of $40,340, establishing a note with a maturity date of July 1, 2002. This revolving line of credit note was paid off when the School obtained another revolving line of credit on October 23, 2002.

On October 23, 2002, the school entered into a revolving line of credit, establishing a note for $65,000 with no maturity date and is payable on demand. As of June 30, 2003, $63,000 was the current balance on the note. The loan is collateralized by all business assets.

8. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended June 30, 2003, the School contracted with Scottsdale Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $2,000,000 aggregate limit and a $500 deductible.

Commercial Property coverage is protected by Scottsdale Insurance Company in the amount of $400,000 per occurrence and a $1,000 deductible. The Cincinnati Insurance Company for Director & Officer liability coverage with a $1,000,000 single occurrence and $1,000,000 aggregate and a $5,000 deductible. Educators Professional liability, which is covered by Chubb, a federal insurance company, has a $1,000,000 single occurrence and a $10,000 deductible.

B. Workers' Compensation

The School pays the State Worker's 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.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 9 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The current school rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were $29,026, $15,788 and $5,216, respectively; 89.75 percent has been contributed for the fiscal year 2003 and 100 percent has been paid for 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of $3,908 is recorded as a liability.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2002, the portion used to fund pension obligations was 9.5 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 School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were $54,739, $29,392, and $24,277 respectively; 95.61 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of $6,005 is recorded as a liability.

10. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount was $4,209.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were $354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year ended 2003, the minimum pay has been established at $14,500. For the School, the amount to fund health care benefits, including the surcharge was $29,061 for fiscal year 2003.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available) were $182,946,777 and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation are derived from policies and procedures approved by the Governing Board. Two members of the management team had vacation leave earned in the year that had not been used at year end. Unused vacation leave is shown as a current liability.

The criteria for determining personal and professional leave are derived from policies and procedures approved by the Governing Board. All full time employees earn one day of personal leave and one day of professional leave each quarter. Employees may carry one day of each into the new fiscal year. Unused personal leave and unused professional leave are shown as a current liability.

B. Employee Medical, Dental and Vision Benefits

The School has contracted through the Lucas County Educational Service Center to provide employee medical, dental, and vision insurance to its full time employees who work thirty or more hours per week. The School pays seventy percent of the monthly premiums for medical coverage and fifty percent for dental and vision coverage.

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…."

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

13. CONTINGENCIES

A. Grants

The School 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 funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Family Learning Center is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of said review, the School's state foundation funding will be decreased by $359 for fiscal year 2003, and will be deducted from future foundation payments.

14. FISCAL AGENT

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Financial Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The total contract payment of $18,791 was paid during the year in full.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the School:

a. Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor's or any other Community School's funds;

b. Maintain all books and accounts of the School;

c. Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending funds which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee;

d. Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;

e. Invest funds of the School in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other Community School; and

f. Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as proposed expenditure is within the approved budget and funds are available.

15. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES	
Professional and Technical Service	$ 39,685
Property Services	143,933
Travel Mileage/Meeting Expense	24,653
Communications	12,868
Utilities	35,873
Contracted Craft or Trade Service	18,973
Tuition	9,291
LCESC Accounting Fees (See Note 14)	18,791
Total Purchased Services	$ 304,067

16. CAPITALIZED LEASE - LESSEE DISCLOSURE

During the fiscal year ended June 30, 2001, the School entered into a capitalized lease for the acquisition of a phone system. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded as a fixed asset at the present value of the future minimum lease payments as of the inception date. Payments made totaled $3,774 for the year.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30,	
2004	$ 3,774
2005	3,318
Total minimum lease payments	7,092
Less: amount representing interest	646
Present value of minimum lease payments	$ 6,446

17. OPERATING LEASES - LESSEE DISCLOSURE

The School has entered into an operating lease for the period August 1, 2000 through July 31, 2002 and renewed through July 31, 2005 with Luttenberger & Company to lease space to house the School. In February 2001 additional space was added to the lease. Payments made totaled $143,933 for the year. The School has the option to renew the lease.

The School also entered into an operating lease commencing December 7, 2000 for a term of 60 months for a copier owned by Ohio Business Machines. Payments made totaled $3,210 in lease payments and meter billings.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2003.

Fiscal Year Ending June 30,	Facility Lease	Copier Lease
2004	$ 217,755	$ 3,210
2005	226,440	3,210
2006	18,870	1,605
Total minimum lease payments	$ 463,065	$ 8,025

18. SUBSEQUENT EVENTS

On July 1, 2003, the school building changed its name but the governing organization remains The Family Learning Center of Northwest Ohio, Inc., doing business as Alliance Academy of Toledo.

On August 28, 2003, the School entered into a revolving line of credit note with a maximum amount of $150,000 with a maturity date of August 28, 2010.

19. RELATED PARTY TRANSACTIONS

Zytech Systems provided services and materials for the School totaling $8,250.34. Zytech Systems is owned and operated by Michael Penner, the husband of Board member Marsha Penner.

Jill Bowman, a teacher at the School, sold (2) Compaq computers to the School totaling $500.

Letha Ferguson, Education Director, is the sister of Board Member Marsha Penner. Ms. Ferguson received payments or had amounts paid on her behalf totaling $4,742.48 for the following items: University of Toledo - $3,457.86; mileage - $240.62; conferences/ seminars - $1,044.00.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Family Learning Center
Lucas County
1501 Monroe Street, 2nd Floor
Toledo, Ohio 43624-1752

To the Governing Board:

We have audited the financial statements of the Family Learning Center, Lucas County, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 18, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the School'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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated May 18, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial

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reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated May 18, 2004.

This report is intended for the information and use of the finance/audit committee, management, the Governing Board and the Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

May 18, 2004

SCHEDULE OF FINDINGS
JUNE 30, 2003

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

FINDING NUMBER 2003-001

Finding for Recovery Repaid During Audit

Ohio Revised Code § 117.28 requires audit reports to set forth all instances of any public money which has been illegally expended.

The following expenditures totaling $290.92 were paid to Michael Penner, a consultant (not an employee) to the Family Learning Center for an Ohio SchoolNet Conference: check #6098 issued on December 20, 2002 for a conference registration of $165.00 and check #6121 issued on January 30, 2003 for two nights accommodations at the Comfort Suites of $125.92.

In accordance with the foregoing facts, and pursuant to ORC § 117.28, a finding for recovery is hereby returned against Michael Penner, consultant; Jerri Heer, Director; and Richard Cox; jointly and severally, in the amount of $290.92 in favor of the Family Learning Center.

On January 15, 2004, the $290.92 in question was repaid and deposited in the account of the Family Learning Center.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest. The Director and a Board member either authorized or used the authority of their office to secure public contracts for themselves, or members of their family, as follows:

- Zytech Systems provided services and materials for the School totaling $8,250.34. Zytech Systems is owned and operated by Michael Penner, the husband of Board member Marsha Penner.
- Letha Ferguson, Education Director, is the sister of Board member Marsha Penner. Ms. Ferguson received payments or had amounts paid on her behalf, totaling $4,742.48 for the following items: University of Toledo - $3,457.86; mileage - $240.62; conferences/ seminars - $1,044.00.

FINDING NUMBER 2003-002
(Continued)

Board Members should abstain from either authorizing or using the influence of their office to secure authorization of public contract for themselves and/or family members. Board Members should also refrain from participating in, formal or informal, discussions in respect to the School if it would affect that person's personal, pecuniary interest. The remaining Board Members should be made aware of such potential conflicts of interest. The Auditor of State's Office is referring this issue to the Ohio Ethics Commission.

FAMILY LEARNING CENTER
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-10148-001	Noncompliance Citation – outstanding debt subject to ORC § 3314.08(J) at year end.	N/A	No longer valid. This portion of the Ohio Revised Code has been amended and no longer applies.
2002-10148-002	Material Weakness – Fiscal Agent did not sign purchase orders.	No	Partially corrected. Reissued as a management letter recommendation.

Auditor of State
Betty Montgomery

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FAMILY LEARNING CENTER

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
JUNE 17, 2004