PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Community Learning Center
Hamilton County
7030 Reading Road, Suite 350
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the accompanying basic financial statements of the Phoenix Community Learning Center, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Phoenix Community Learning Center, Hamilton County, Ohio, as of June 30, 2005, and the changes in 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 August 31, 2006, on our consideration of the Center'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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The federal awards expenditure schedule is required by 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. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

August 31, 2006

PHOENIX COMMUNITY LEARNING CENTER
Management Discussion and Analysis
June 30, 2005
Unaudited

The discussion and analysis of Phoenix Community Learning Center's (the PCLC) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the PCLC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the PCLC's financial performance.

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

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- The assets of the PCLC exceeded its liabilities at year-end by $653,759. Of this amount, $387,428 may be used to meet the PCLC's ongoing obligations to students and creditors.
- In total, net assets decreased by $325,437. This was due to an increase in expenditures, particularly payroll and capital outlay. Revenues also decreased by 6%.
- Total assets decreased by approximately $279,481, which represents a 21% decrease from the prior year. The decrease is primarily due to decreases in cash held by the PCLC.

Using This Financial Report

This financial report contains the basic financial statements of the PCLC, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows. As the PCLC reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

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

This statement reports the PCLC's net assets, however, in evaluating the overall position and financial viability of the PCLC, non-financial information such as the condition of the PCLC building and potential changes in the laws governing charter PCLCs in the State of Ohio will also need to be evaluated.

The following table presents a condensed summary of the PCLC's overall financial position at June 30, 2005 and June 30, 2004.

	2005	2004
Current and other assets	$760,263	$984,571
Capital assets	266,331	321,504
Total assets	1,026,594	1,306,075
Current liabilities	372,835	326,879
Total liabilities	372,835	326,879
Net assets:		
Invested in capital assets, net of debt	266,331	321,504
Unrestricted	387,428	657,692
Total net assets	$653,759	$979,196

Total net assets of the PCLC decreased by $325,437 or 33%. The decrease in total net assets from fiscal year 2004 is due in part to an increase in payroll expenditures due to increased staff levels to provide better education to the student population. The PCLC saw a decrease in capital assets as the majority of the decrease can be attributed to the continued depreciation of the leasehold improvements.

Statement of Revenues, Expenses, and Changes in Net Assets

The following table represents a condensed summary of the PCLC's activities for the years ended June 30, 2005 and 2004.

PHOENIX COMMUNITY LEARNING CENTER
Management Discussion and Analysis
June 30, 2005
Unaudited

	2005	2004
Revenues:		
Operating revenues:		
State Foundation	$2,065,994	$2,031,532
DPIA	371,815	335,492
Charges for services	12,691	4,117
Other operating revenues	10,675	18,324
Non-operating revenues:		
Federal grants	518,557	800,467
State grants	34,242	17,070
Interest income	0	3,524
Total revenues	3,014,224	3,210,526
Expenses:		
Operating expenses:		
Salaries and wages	1,769,324	1,391,096
Fringe benefits	442,604	338,904
Purchased services:		
Professional and technical services	120,196	176,656
Property services	334,088	329,958
Communications	26,790	36,176
Utilities	40,645	50,362
Food services	87,463	79,114
Other	22,387	75,869
Materials and supplies	256,420	198,884
Depreciation	180,972	174,419
Other expenses	58,772	54,259
Total expenses	3,339,661	2,905,697
Change in net assets	(325,437)	304,829
Ending Net Assets	$653,759	$979,196

Revenues decreased due to federal grant allocations being less than the prior year. In total, expenses increased by 15% which is primarily related to additional salaries, benefits and health insurance cost increases.

Capital Assets

At June 30, 2005, the PCLC had $266,331 invested in a broad range of capital assets, including leasehold improvements, furniture, and equipment.

Capital Assets at Year-End (Net of Depreciation)

	2005	2004
Leasehold improvements	$140,561	$277,419
Equipment and furniture	125,770	44,085
Total	$266,331	$321,504

The decrease of $55,173 in net assets invested in capital assets results from recognizing current year depreciation of capital assets ($180,972) which was partially offset by current year capital asset acquisition in the amount of $125,799.

See Note 5 of the notes to the basic financial statements for more detailed information on the PCLC's capital assets.

Contacting the PCLC

This financial report is designed to provide a general overview of the finances of the Phoenix Community Learning Center and to show the PCLC's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to:

Phoenix Community Learning Center
7030 Reading Road, Suite 350
Cincinnati, OH 45237
(513) 351-5801

PHOENIX COMMUNITY LEARNING CENTER
STATEMENT OF NET ASSETS

JUNE 30, 2005

Assets:	
Current assets:	
Cash	$ 718,750
Intergovernmental receivable	26,513
Total current assets	745,263
Noncurrent assets:	
Security deposit	15,000
Capital assets, net depreciation	266,331
Total noncurrent assets	281,331
Total Assets	1,026,594
Liabilities:	
Current liabilities	
Accounts payable	17,754
Accrued wages and benefits	318,990
Intergovernmental payable	36,091
Total current liabilities	372,835
Net Assets:	
Invested in capital assets, net of related debt	266,331
Unrestricted	387,428
Total net assets	$ 653,759

See accompanying notes to the basic financial statements

PHOENIX COMMUNITY LEARNING CENTER
Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2005

Operating Revenues:		
State foundation	$	2,065,994
DPIA		371,815
Charges for services		12,691
Other operating revenues		10,925
Total operating revenues		2,461,425
Operating Expenses:		
Salaries and wages		1,769,324
Fringe benefits		442,604
Purchased Services:		
Professional and tehnical services		120,196
Property services		334,088
Communications		26,790
Utilities		40,645
Food services		87,463
Other		22,387
Materials and supplies		256,420
Depreciation		180,972
Other expenses		58,772
Total operating expenses		3,339,661
Operating Loss		(878,236)
Nonoperating revenues:		
Federal grants		518,557
State grants		34,242
Total nonoperating revenues		552,799
Change in net assets		(325,437)
Net assets, beginning of year		979,196
Net assets, end of year	$	653,759

See accompanying notes to the basic financial statements

PHOENIX COMMUNITY LEARNING CENTER
Statement of Cash Flows

Year Ended June 30, 2005

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	$ 2,065,994
Cash received from State of Ohio - DPIA	371,815
Cash received from customers	12,691
Cash received from other operating revenues	10,925
Cash payments for personal services	(2,123,131)
Cash payments for contract services	(663,180)
Cash payments for supplies and materials	(211,714)
Cash payments for other expenses	(114,708)
Net cash used by operating activities	(651,308)
Cash flows from noncapital financing activities:	
Cash received from state and federal grants	556,110
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(125,799)
Net change in cash and cash equivalents	(220,997)
Cash and Cash Equivalents at beginning of year	939,747
Cash and Cash Equivalents at end of year	718,750

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	(878,236)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	180,972
Change in assets and liabilities:	
Accounts payable	(42,841)
Accrued wages and benefits	83,956
Intergovernmental payable	4,841
Net cash used by operating activities	$ (651,308)

See accompanying notes to the basic financial statements

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Phoenix Community Learning Center, Hamilton County, Ohio (PCLC) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific, and related teaching service. The PCLC has been determined by the Internal Revenue Service to be a tax-exempt organization under Internal Revenue Code Section 501(c)(3). The PCLC, which is part of the State's education program, is independent of any school district. The PCLC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the PCLC.

The PCLC was approved for operation under a Community School Contract (Contract) with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 2001. The PCLC began operations on July 1, 2001. The Sponsor is responsible for evaluating the PCLC's performance and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The PCLC operates under a self-appointing, multi-member Board of Directors (the Board) consisting of seven (7) members. Exhibit III of the PCLC's Community School Contract, specifies that vacancies arising on the Board may be filled by the appointment of successors by a majority of the then existing directors. The Board is responsible for carrying out the provisions of the Contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The PCLC has one instructional/support facility staffed by teaching personnel, which provides services to approximately 400 students.

Mr. Luther Brown and Dr. Glenda Brown are the founders of the PCLC. Mr. Luther Brown, Board Chairman, is the husband of Dr. Glenda Brown, Superintendent and non-voting Board member.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The PCLC's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The PCLC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the PCLC's accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. BASIS OF PRESENTATION

The PCLC uses enterprise accounting to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost (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 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. The difference between total assets and liabilities is defined as net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net 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 utilized 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 Rev. Code, Chapter 5705, unless specifically provided in a school's contract with its sponsor. The Contract between the PCLC and the Sponsor prescribes a budgetary process for the PCLC requiring the Superintendent, Business Manager/Treasurer, and the Board to review the financial statements on a monthly basis. In addition, the PCLC is required to prepare an updated forecast on a monthly or quarterly basis.

D. CASH

All cash received by the PCLC is maintained in demand deposit accounts. The PCLC had no investments during the fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. CAPITAL ASSETS AND DEPRECIATION

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The PCLC maintains a capitalization threshold of $500. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed.

Depreciation of furniture and equipment 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 capital assets. Improvements to the leased building are depreciated over the remaining life of the lease. The PCLC does not possess any infrastructure.

F. INTERGOVERNMENTAL REVENUES

The PCLC currently participates in the State Foundation Program and Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in which they are earned, essentially the same as the fiscal year.

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

The PCLC participates in other various federal programs through the Ohio Department of Education. These include the National School Lunch Program, Title I, Title II, Title VI, and Title VI-R.

G. ESTIMATES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. SECURITY DEPOSIT

The PCLC entered into a lease for the use of a building space for the PCLC's administration. This lease required a security deposit of $15,000 to be paid at its signing. This amount is held by the lessor and will be returned to the PCLC at the lease's expiration.

I. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. 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 School applies restricted resources when an expense is incurred for purposes of which both restricted and unrestricted net assets are available.

3. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the PCLC's deposits may not be returned to it. The PCLC's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pooled collateral. At June 30, 2005, the PCLC had a carrying value of $718,750. The bank balance was $748,041, of which $100,000 was covered through the Federal Depository Insurance Corporation (FDIC). The remaining $648,041 was covered under a pooled collateral agreement.

4. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables at June 30, 2005, consisted of intergovernmental grants. All intergovernmental receivables are considered collectible in full given the stable condition of State programs and the current fiscal year guarantee of federal funds. The principle items of intergovernmental receivables as of June 30, 2005 are as follows:

Intergovernmental Receivable	Amount
School lunch program	$14,249
Title VI-B	4,500
Title II	2,227
Drug Free Act	5,537
Total	$26,513

5. CAPITAL ASSETS

A summary of the capital assets as of June 30, 2005 is as follows:

	Balance 7/1/04	Additions	Disposals	Balance 6/30/05
Leasehold improvements	$684,289	$0	$0	$684,289
Equipment and furniture	156,793	125,799	0	282,592
Totals at historical cost	841,082	125,799	0	966,881
Less accumulated depreciation:				
Leasehold improvements	406,870	136,858	0	543,728
Equipment and furniture	112,708	44,114	0	156,822
Total accumulated depreciation	519,578	180,972	0	700,550
Capital assets, net	$321,504	($55,173)	$0	$266,331

6. RISK MANAGEMENT

A. Property Liability

The PCLC is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural diasters. For fiscal year 2005, the PCLC contracted with Market Finders Insurance Company for property and general liability insurance. The policy's general aggregate, personal and advertising injury, and each occurrence limit is $1,000,000 with a $250 deductible. There has been no reduction in coverage from the prior year and settled claims have not exceeded PCLC's coverage in any of the past three years.

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The PCLC contributes to the School Employees Retirement System (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 and 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 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the PCLC is required to contribute at an actuarially determined rate. The current PCLC rate is 14% of annual covered payroll. A portion of the PCLC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 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 a statutory maximum amount, by the SERS Retirement Board. The PCLC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were approximately $59,761, $40,000, and $38,000, respectively; 72% has been contributed for 2005 and 100% has been contributed for 2003 and 2004 fiscal years.

B. State Teachers Retirement System

The PCLC 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 Street, Columbus, Ohio 43215-3371, 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 1.5% 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.

7. DEFINED BENEFIT PENSION PLANS (Continued)

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 ton 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, 2005, plan members were required to contribute 10.0% of their annual covered salaries. The PCLC was required to contribute 14%; 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The PCLC's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003, were approximately $108,487, $128,000, and $104,000, respectively; 89% has been contributed for 2005 and 100% has been contributed for 2003 and 2004 fiscal years.

8. POSTEMPLOYMENT BENEFITS

The PCLC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 funded on a pay-as-you-go basis.

8. POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribute rate, currently 14% of covered payroll. For the year ended June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the PCLC, this amount was approximately $11,000 during fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. At June 30, 2004, net heath care costs paid by STRS were $268.7 million and STRS had 111,853 eligible benefit recipients.

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For SERS, coverage is made available to service retirees with ten or more fiscal 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% of the premium.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 3.43 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 2004, the minimum pay was established at $25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year approximately $29,500.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were $223,443,805 and the target level was $335.2 million. At June 30, 2004 SERS had net assets available for payment of health care benefits of $300.8 million. SERS has 62,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

All employees receive 5 sick days and 2 personal days per school year. Employees are not permitted to carry over balances at year end; therefore, there is no liability for accrued compensated absences.

B. Employee Medical and Dental Benefits

The PCLC has purchased insurance from United Health Care to provide employee medical/surgical and dental benefits. The PCLC pays 80% for a single premium rate, and 75% for the family premium rate.

10. OPERATING LEASE

The PCLC leases its building from the Allen Temple Real Estate Foundation. The lease is for a period of five years beginning July 1, 2001. The minimum future lease payments remaining under this operating lease as of June 30, 2005, based on 37,223 square footage of rental space. The final year of the lease is 2006 with a scheduled payment of $260,631.

11. CONTINGENCIES

A. Grants

The PCLC 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the PCLC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the PCLC at June 30, 2005.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and 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. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2006, as a result of such review.

11. CONTINGENCIES (Continued)

C. Pending Litigation

A lawsuit was filed in Franklin County Common Pleas Court on May 13, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state law. 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 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on PCLC is not presently determinable.

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

13. BOARD MEMBERS

Board members received no compensation for the fiscal year 2005. Mr. Caleb Brown, vice-chairman of the PCLC board, is also the PCLC's attorney. Mr. Anthony Robinson, PCLC board member, is employed by Key Bank which is the depository for PCLC.

14. RELATED PARTY TRANSACTIONS

Dr. Glenda Brown, Superintendent/Board Member, and Mr. Luther Brown, Board President, who are co-founders of PCLC, are married. Dr. Glenda Brown received a bonus of $15,000 during the fiscal year.

The PCLC hired Dr. Glenda Brown's niece Ms. Jevelyn Latham Hubbard as a Literacy Consultant at a rate of $120 per hour. Ms. Jevelyn Latham was paid $19,890 during the fiscal year.

15. CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2005, PCLC was required to implement GASB 40, "Deposit and Investment Risk Disclosures". The statement requires additional disclosures for credit risk, concentration risk and interest rate risk in relation to the PCLC's investments.

16. SUBSEQUENT EVENTS

As of August 18, 2006 the PCLC owed $5,007 in delinquent payment to the State Teachers' Retirement System (STRS).

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PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR ***Pass Through Grantor*** Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education				
Child Nutrition Cluster				
National School Lunch Program	LL-P1 & LL-P4	10.555	$90,772	$90,772
Total U.S. Department of Agriculture			**90,772**	**90,772**
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education				
Special Education Cluster				
Special Education Grants to States (Title VI-B)	6BSF & 6BSX	84.027	101,185	87,237
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	312,399	325,183
Education Technology	TJ-SQ	84.318	8,305	8,305
Title V - Innovative Education Program Strategies	C2-S1	84.298	2,570	4,410
Improving Teacher Quality	TR-S1	84.367	20,271	20,271
Safe and Drug Free Schools	DR-S1	84.186	615	6,152
Total U.S. Department of Education			**445,345**	**451,558**
Total			**$536,117**	**$542,330**

The accompanying notes are an integral part of this schedule.

NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

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

Phoenix Community Learning Center
Hamilton County
7030 Reading Road, Suite 305
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the basic financial statements of Phoenix Community Learning Center, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2006. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all matters in the internal control that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated August 31, 2006, we reported another matter involving internal control over financial reporting which we did not deem a reportable condition.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School'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, providing an opinion 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards,* which is described in the accompanying schedule of findings and questioned costs as item 2005-003. In a separate letter to the School's management dated August 31, 2006, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, the Board of Directors, and federal awarding agencies. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

August 31, 2006

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

Phoenix Community Learning Center
Hamilton County
7030 Reading Road, Suite 350
Cincinnati, Ohio 45237

To the Board of Directors:

Compliance

We have audited the compliance of Phoenix Community Learning Center (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal program. The School'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 express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of 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 School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

As described in item 2005-003 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding reporting applying to its Title I and Title IV-B programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Phoenix Community Learning Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with 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.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the management, the Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

August 31, 2006

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Qualified opinion on Title I and Title IV B for reporting.
(d)(1)(vi)	**Are there any reportable findings under § .510?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title I – CFDA #84.010
(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 2005-001

Reportable Condition – Payroll Expenditures

During the audit period, the School's payroll processing was outsourced to ADP. The School's employees are paid bi-monthly, and ADP furnished the School with a report each pay period.

- The school secretary collects the time/sign in sheets. The Business Manager compiles the data to send to ADP. The Treasurer does not review or approve the payroll data before it is sent to ADP.

- When the Payroll reports are received from ADP, the School does not document a reconciliation of hours employees worked compiled by the school to the hours paid on the ADP Reports. Nor does the School reconcile the standing data (their respective pay rates and deductions) kept by the School to the amounts in the ADP Payroll reports. In addition, the Treasurer did not document the review of 16 of the 24 (67%) ADP Payroll Reports;

Failure to establish control activities could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures. The School should implement procedures to ensure that suitable control activities are in place to when processing payroll transactions. We recommend that the School implement procedures to ensure that suitable control activities are in place to identify misstatements either as they occur or through the review process. The procedures include, but are not limited to, the following:

- Review and approval of payroll summaries prepared by the Business Manager prior to sending them to ADP;

- Review or perform the reconciliations of the payroll summaries of employee hours worked and their respective pay rates to the ADP reports that include the rate and number of hours worked for which an employee was paid; and

- Evidencing such reviews via initialing and dating by the person performing the review.

Official's Response

During Fiscal Year 2006, the Phoenix Community Learning Center began doing their payroll "in house" using the Uniformed State Accounting Software (USAS). Consequently, PCLC no longer contracts out their payroll to ADP. Each payroll is now reviewed in detail by the Treasurer and each paycheck is hand signed by the Treasurer. We are confident this change will correct the issues in this finding.

FINDING NUMBER 2005-002

Reportable Condition – Purchasing

PCLC's Charter, Exhibit II – Financial Plan – Record Keeping (pg 3 of 17), specifies that all disbursements other than payroll require a purchase order or check request signed by the Superintendent and the Business Manager/Treasurer.

While PCLC did execute a purchase order for all of the expenditures tested, 58% of those were issued after the commitment of funds or actual purchase.

FINDING NUMBER 2005-002
(Continued)

Failure to execute and approve purchase orders prior to making commitments or expenditures could result in improper or unnecessary expenditures.

We recommend that the Treasurer or Superintendent approve the purchase orders prior to making the commitment or purchase.

Official's Response

During Fiscal Year 2006, the Phoenix Community Learning Center began using two new procedures to help correct the situation described in this finding. First, blanket purchase orders are being used for vendors where multiple purchases are made during the year, and secondly, a "Then and Now" certification is being used for purchase orders. Utilizing, both of these techniques, as well as being diligent about making sure everyone is following proper purchasing procedures should assure this finding is corrected.

3. FINDINGS FOR FEDERAL AWARDS

Final Expenditure Report

Finding Number	2005-003
CFDA Title and Number	Title I – CFDA #84.010 Title IV-B (IDEA-B) – CFDA #84.027
Federal Award Number / Year	C1S1 / 2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs

34 CFR 80.43, states, "If a grantee or subgrantee materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, an assurance, in a State plan or application, a notice of award, or elsewhere, the awarding agency may take one or more of the following actions, as appropriate in the circumstances:

(1) Temporarily withhold cash payments pending correction of the deficiency by the grantee or subgrantee or more severe enforcement action by the awarding agency,

(2) Disallow (that is, deny both use of funds and matching credit for) all or part of the cost of the activity or action not in compliance,

(3) Wholly or partly suspend or terminate the current award for the grantee's or subgrantee's program,
(4) Withhold further awards for the program, or

(5) Take other remedies that may be legally available."

In addition, 34 CFR 80.30(c)(1) states, "Except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any of the following changes is anticipated under a nonconstruction award:

(i) Any revision which would result in the need for additional funding.

(ii) Unless waived by the awarding agency, cumulative transfers among direct cost categories, or, if applicable, among separately budgeted programs, projects, functions, or activities which exceed or are expected to exceed ten percent of the current total approved budget, whenever the awarding agency's share exceeds $100,000.

(iii) Transfer of funds allotted for training allowances (i.e., from direct payments to trainees to other expense categories).

The Ohio Department of Education established grant guidelines, which include the following:

1. A Final Expenditure Report (**FER**) shall be submitted for <u>each</u> project.

2. Obligations must be liquidated by the report date without exception. Encumbrances shall not to be included on the FER. All reported amounts should be presented on a cash basis.

3. Under authority of 34 CFR 80.43, failure to submit an FER (Final Expenditure Report) or correct FER discrepancies in a timely manner may result in a temporary suspension cash payments for the project, a suspension of program operations, or termination and repayment of any or all of the grant award until said project is closed.

4. **10% RULE –** Entities may expend up to **10%** more than approved in the budget for an **<u>OBJECT CODE TOTAL</u>** without submitting a budget revision (*e.g., the total amount approved for salaries, object code 100, is $1,000.00 – entities may spend up to $1,100.00*). This authority does not permit unauthorized expenditures. (34 CFR 80.30)

5. All amounts reported on the FER must reconcile to the district's or agency's accounting system used to prepare annual financial statements.

Contrary to the above requirements, the School's Consolidated Final Expenditure Report (FER) for all of its grants did not include all expenditures. The amounts reported on the FER were the budgeted amounts, not the actual cash basis amounts, as required. In addition, the School expended more than ten percent (10%) over the budgeted amounts by object code as shown in the tables for which the School did not receive approval.

Title I – CFDA #84.010	Budgeted Amount	Actual Amount per Accounting System	110% 0f Budgeted Amount	Amount Exceeding 10 % over Budgeted Amount
Purchased Services	1,956.44	16,390.00	2,152.08	14,237.92
Supplies	17,326.00	20,708.29	19,058.60	1,654.69
Capital Outlay	0	18,750.00	0	18,750.00
Total Title I	**19,282.44**	**55,848.29**	**21,210.68**	**34,642.61**

IDEA-B – CFDA #84.027	Budgeted Amount	Actual Amount per Accounting System	110% 0f Budgeted Amount	Amount Exceeding 10 % over Budgeted Amount
Salaries	**48,640.00**	**56,729.80**	**53,504.00**	**3,225.80**

Based on the above deficiencies, we are questioning amounts equal to the Federal awards identified above which were received during the year ended June 30, 2005. In addition, failure to comply with grant requirements could result in future questioned costs and potential loss of federal financial assistance.

To achieve compliance with these requirements, we recommend that the Treasurer review the Final Expenditure Report for each grant prior to its being submitted by the School and compare that Report to the Actual expenditures recorded in the expenditure ledgers. We also recommend, the School obtain prior approval from the Ohio Department of Education for all changes which exceed 10% of the budget.

Official's Response

Although we are confident that all Federal Expenditures, particularly for Title I and IDEA-B were spent on allowable expenditures and in accordance with our approved CCIP budget, we did submit an incorrect Final Expenditure Report (FER). This FER was submitted during a transitional time when the Treasurer was being changed.

Consequently, this resulted in some confusion. During Fiscal Year 2006 we are confident that this problem has been addressed. Further, we are confident that you will find that the amount of money spent according to our accounting records will be consistent with the amount reported on the FER and the amount budgeted on the CCIP. Any deviations from the budget will be less than the 10% as is allowable.

Auditor of State
Betty Montgomery

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PHOENIX COMMUNITY LEARNING CENTER

HAMILTON 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
SEPTEMBER 12, 2006