PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

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 Balance Sheet of Phoenix Community Learning Center, Hamilton County, Ohio (PCLC), as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the PCLC'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 Phoenix Community Learning Center, Hamilton County, Ohio, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2003 on our consideration of PCLC'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.

The accompanying federal awards expenditures schedule is presented for additional analysis as 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 financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

December 11, 2003

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PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003

Assets:	
Current Assets	
Cash	$ 606,574
Intergovernmental Receivable	105,000
Food Service Sales Receivable	344
Miscellaneous Receivable	11,894
Total Current Assets	723,812
Noncurrent Assets	
Security Deposit	15,000
Fixed Assets net of depreciation	361,736
Total NonCurrent Assets	376,736
Total Assets	$ 1,100,548
Liabilities and Fund Equity:	
Current Liabilities	
Accounts Payable	$ 154,205
Intergovernmental Payable	45,379
Accrued Wages & Benefits	37,681
Capital Lease Payable	7,352
Deferred Revenue	105,000
Total Current Liabilities	349,617
Fund Equity	
Retained Earnings	750,931
Total Liabilities and Fund Equity	$ 1,100,548

The accompanying notes to the financial statements are an integral part of this statement.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues:	
State Foundation Payments	$ 2,109,544
DPIA	326,388
Food Service Sales	5,501
Other Operating Revenues	21,433
Total Operating Revenues	2,462,866
Operating Expenses:	
Salaries	1,031,234
Fringe Benefits	244,404
Purchased Services	
Professional and Technical Services	83,672
Property Services	262,558
Contracted Craft or Trade Service	8,927
Travel	8,895
Utilities	52,740
Communications	22,512
Food Service & Upgrades	87,300
Other Purchased Services	77,178
Supplies and Materials	308,684
Depreciation	199,734
Other	278,445
Total Operating Expenses	2,666,283
Operating Loss	(203,417)
Non-Operating Revenues:	
Federal Grants	
Federal Start Up	45,000
Restricted Federal Grants	95,655
Food Service Grant	75,759
State Grants	
EMIS Subsidy Grant	5,000
Food Service Grant	5,346
Refund of Prior Year Expenditures	654
Total Non-Operating Revenues	227,414
Net Income	23,997
Retained Earnings at Beginning of Year (Restated - See Note 17)	726,934
Retained Earnings at End of Year	$ 750,931

The accompanying notes to the financial statements are an integral part of this statement.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

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

Increase (Decrease) in Cash:	
Cash Flows From Operating Activities:	
Cash Received from State of Ohio - Foundation	$ 2,109,544
Cash Received from State of Ohio - DPIA	326,388
Cash Received from Food Service Sales	5,157
Cash Received from Other Operating Activities	10,193
Cash Payments for Salaries and Fringe Benefits	(1,240,200)
Cash Payments to Suppliers for Goods and Services	(1,076,842)
Net Cash Provided by Operating Activities	134,240
Cash Flows From Non-Capital Financing Activities	
Cash Received from State and Federal Grants	226,760
Net Cash Provided by Non-Capital Financing Activities	226,760
Cash Flows From Capital Financing Activities	
Net Increase in Cash	361,002
Cash at Beginning of Year	245,572
Cash at End of Year	$ 606,574
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (203,417)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	199,734
Changes in Assets and Liabilities	
Increase in Intergovernmental Receivable	(101,982)
Increase in Miscellaneous Receivable	(10,467)
Increase in Food Service Sales Receivable	(344)
Increase in Accounts Payable	144,281
Increase in Intergovernmental Payable	21,480
Increase in Accrued Wages & Benefits Payable	6,133
Decrease in Captial Leases Payable	(26,178)
Increase in Deferred Revenue	105,000
Total Adjustments	337,657
Net Cash Used for Operating Activities	$ 134,240

Noncash investing, capital, and financing activities

Capital lease obligations of $7,532 were incurred when PCLC entered into leases for computer and printer equipment.

The accompanying notes to the financial statements are an integral part of this statement.

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1. DESCRIPTION OF THE PCLC 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 qualifies as an 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 PCLC. 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 414 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. Mr. Caleb Brown is a board member and the school attorney. His spouse, Ms. Linda Brown, became the Business Manager in July of 2002.

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 most significant of the PCLC's accounting policies are described below.

A. BASIS OF PRESENTATION

Enterprise Accounting

The PCLC uses enterprise accounting to account for those operations 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 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. Equity (i.e., net total liabilities) consists of retained earnings. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. 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. Total cash for the PCLC is presented as “cash” on the accompanying balance sheet. The PCLC had no investments during the fiscal year.

E. FIXED ASSETS AND DEPRECIATION

The PCLC capitalizes fixed assets at cost (or estimated historical cost) and makes adjustments for additions and retirements during the year. The PCLC made purchases during the year that warranted capitalization and depreciation. The PCLC maintains a capitalization threshold of five hundred dollars ($500). The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend and asset’s life are not capitalized.

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 fixed assets. The PCLC’s building, used to house its school, is leased and therefore, not listed as a fixed asset. Improvements to the leased building are depreciated over the remaining life of the lease. The PCLC does not posses 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 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 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 also participates in the Federal Charter School Grant Program and the State Charter School Grant Program through the Ohio Department of Education. Under these programs, the PCLC was awarded $150,000 in FY2003 to offset startup costs of the PCLC. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statement. The PCLC participates in other various federal programs through the Ohio Department of Education. These include the National School Lunch Program, Title II, Title VI, and Title VI-R.

G. USE OF ESTIMATES

In preparing financial statements, the PCLC is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Security Deposit

The PCLC entered into a lease for the use of 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.

3. DEPOSITS

At June 30, 2003, the PCLC had a cash balance of $606,574. The bank balance was $656,033, of which $120,295 was covered through the Federal Depository Insurance Corporation (FDIC). The remaining $535,738 was covered under a pool collateralize agreement.

4. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables at June 30, 2003, consisted of foundation and 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 principal items of intergovernmental receivables are as follows:

Program	Amount
Start Up Costs	$ 105,000
Total	$ 105,000

5. MISCELLANEOUS RECEIVABLES

Miscellaneous Receivables at June 30, 2003 consisted of reimbursements from overpayment of invoices, repayment of advance, private contribution, reimbursement for credit card purchase, and cash deposit.

The principal items of miscellaneous receivables are as follows:

Vendor	**Amount**
United Health Care	$ 8,906
Michelle Crabtree Reimbursement of Advance	116
Saxon Publishing	2,133
Private Contribution	50
Linda Brown Sam's Card Reimbursement	238
Cash Deposit	450
Total	$ 11,894

6. FIXED ASSETS

A summary of the fixed assets as of June 30, 2003, is as follows:

Leasehold Improvements - Building	$ 769,590
Furniture and Equipment	74,018
Capital Lease	62,024
Less: Accumulated Depreciation	(543,896)
Net Fixed Assets	$ 361,736

7. 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 disasters. For fiscal year 2003, 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.

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 calculated by the State.

8. Define 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 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 9 percent of their annual covered salary and the PCLC is required to contribute at an actuarially determined rate. The current PCLC rate is 14 percent 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 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 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, 2003, and 2002 were $ 18,739 and $ 79,883 respectively; 100% percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002.

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 St., Columbus, OH 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 10.5% 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. 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 PCLC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% 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 to the DB Plan for the fiscal years ended June 30, 2003, and 2002, were $ 104,243 and $ 91,939 respectively; 100% percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 .

9. POST EMPLOYMENT 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.

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 contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was approximately $8,019 during fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was 3.011 billion at June 20, 2002 (latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were $354.7 million and STRS had 105,300 eligible benefit recipients.

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 percent of the premium.

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, 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 2002, the minimum pay has been established at $14,500. For the PCLC, the amount to fund health care benefits, including surcharge, equaled $13,372 during the 2003 fiscal year.

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, 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 benefit of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. 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 percent for a single premium rate, and 75 percent for the family premium rate.

11. 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 following is a schedule of the minimum future lease payments remaining under this operating lease as of June 30, 2003, based on 37,223 square footage of rental space:

Lease Year	Rent/ Sq. ft.	Annual Rent	Monthly Rent
2	$ 5.50	$ 204,781	$ 17,065
3	6.00	223,398	18,617
4	6.50	242,015	20,168
5	7.00	260,631	21,719
Total		$ 930,825	

12. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2003, PCLC entered into capital leases for the cost of computer equipment. The lease terms are for 24 months and the amounts paid represent more than 90% of the equipment's fair market value. The terms also provide options to purchase the computers at the end of the term. These leases meet 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 leases have been recorded at the present value of the future minimum lease payments as of the inception date.

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	Lease Payments
2004	$7,529
Less: Amount Representing Interest	(177)
Present Value of Minimum Lease Payments	$ 7,352

13. 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.

14. 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, 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 Phoenix Community Learning Center is not presently determinable.

C. STATE FUNDING

The Ohio Department of Education conducts reviews of enrolment 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. The review resulted in the overpayment to the school in the amount of $12,047. This amount was deducted from school foundation payments in fiscal 2003.

15. BOARD MEMBERS

Board members received no compensation for the FY 2003 school year.
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.

16. RELATED PARTY TRANSACTIONS

Dr. Glenda Brown, Superintendent/Board Member, is the wife of Mr. Luther Brown, Board President. Dr. Glenda Brown received a bonus of $8,500 during the fiscal year.

PCLC renewed Superintendent/Board Member Dr. Glenda Brown's sister, Ms. Geraldine Latham's contract to be a Lead Mentor Teacher in the amount of $51,500 for the school year.

PCLC hired Dr. Glenda Brown's niece and Ms. Geraldine Latham's daughter, Ms. Jevelyn Latham Hubbard, as a Literacy Consultant at a rate of $120 per hour. Mr. Jevelyn Latham was paid $16,360 during the fiscal year.

PCLC's Business Manager/Assistant Treasurer beginning in fiscal year 2003 is Mrs. Linda Brown, who is Board Member/Attorney, Mr. Caleb Brown's wife. Mrs. Linda Brown was contracted in the amount of $40,000 and received addition pay for "audit work" in the amount of $2,500. In addition, the board awarded Mrs. Linda Brown $8,000 for "hazard pay."

Mr. Anthony Robinson, PCLC board member, is employed by Key Bank. The PCLC has its bank accounts with Key Bank.

17. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to correct intergovernmental receivables improperly posted in the amount of $234,657 for July 2002 state foundation payment and a school net payment. This also reduced fund equity.

FY 2002 Restatement

Intergovernmental Receivable	$237,675
Incorrect Postings	(234,657)
Restated Intergovernmental Receivable as 6/30/02	$3,018

A prior period adjustment was made to correct error in the calculation of depreciation which increased accumulated depreciation by $89,124. This also reduced fund equity.

FY 2002 Fixed Assets Net of Deprection Restatement

Fixed Assets	$649,941
Depreciation Expense	(89,124)
Restated Fixed Assets Net of Deprection	$560,817

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED June 30, 2003

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:				
Nutrition Cluster:				
National School Lunch Program	N/A	10.555	$ 74,846	$ 74,846
Total U.S. Department of Agriculture - Nutrition Cluster			**74,846**	**74,846**
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SF	84.027	5,284	29,356
Total Special Education Cluster			5,284	29,356
Grants to Local Educational Agencies (ESEA Title I)	CS-S1	84.010	83,211	202,730
Title II-A	TR-S1	84.367	5,064	-
Title II-D	TJ-S1	84.318	1,922	-
Drug-Free Schools Grant	DR-S1	84.186	228	-
Federal Start-Up	CH-S1	84.282	45,000	-
Title VI	C2-S1	84.298	576	3,201
Total Department of Education			**141,285**	**235,287**
Totals			**$ 216,131**	**$ 310,133**

The accompanying notes to this schedule are an integral part of this schedule.

NOTES TO THE FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FOOD DISTRIBUTION

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

Auditor of State
Betty Montgomery

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

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

To the Board of Directors:

We have audited the financial statements of Phoenix Community Learning Center, Hamilton County, Ohio (PCLC), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 11, 2003. 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 PCLC'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 and questioned costs as items 2003-001 through 2003-009.

We also noted an immaterial instance of noncompliance that we have reported to the management of PCLC in a separate letter dated December 11, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PCLC'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 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 PCLC's ability to record, process, summarize and report financial data with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-010 through 2003-0015.

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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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider the reportable conditions described above to be material weaknesses.

We also 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 PCLC in a separate letter dated January 29, 2004.

This report is intended for the information and use of the audit committee, management, Board of Directors, federal awarding agencies and pass-through entities, 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

December 11, 2003

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND 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, Hamilton County, Ohio (PCLC), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. PCLC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of PCLC's management. Our responsibility is to express an opinion on PCLC'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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about PCLC's compliance with those requirements and performing such other procedures as 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 PCLC's compliance with those requirements.

In our opinion, PCLC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, we noted a certain instance of noncompliance, that does not require inclusion in this report that we have reported to the management of the PCLC in a separate letter dated December 11, 2003

Internal Control Over Compliance

The management of PCLC 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 PCLC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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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We noted matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect PCLC's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-016 and 2003-017.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. We also noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to the management of the PCLC in a separate letter dated December 11, 2003.

This report is intended for the information and use of the audit committee, management, Board of Directors, federal awarding agencies and pass-through entities, 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

December 11, 2003

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2003

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)?	Yes
(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 non-compliance 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?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I: CFDA# 84.010 National School Lunch Program CFDA# 10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: $300,000 Type B: > All others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

Finding for Recovery - A

In fiscal year 2003, Business Manager, Linda Brown, was responsible for depositing student lunch money collected to the bank each Friday. Ms. Brown did not deposit monies on a consistent and timely basis, and often did not use proper documentation. We reconciled deposits and lunch money received that was reported in the monthly CN7 reports by the Administrative Assistant, Shawn Scott. We noted a discrepancy between receipts reported and actual bank deposits in the amount of $441. Ohio Rev. Code Section 9.39 states all "public officials are liable for all public money received or collected by then or by their subordinates under color of office."

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Ms. Linda Brown, Business Manager, and in favor of Phoenix Community Learning Center, in the amount of four hundred and forty-one dollars ($441).

Finding for Recovery- B

State ex rel. McMClue v. Hagerman, 155 Ohio St 320 (1951), provides that expenditures made by a public entity serve a proper public purpose. *McClure* indicates that as a general rule, the question of whether the performance of an act or the accomplishment of a specific purpose constitutes a "public purpose" for which funds may be lawfully disbursed rests the judgment of the authorities, unless arbitrary or unreasonable.

On February 2, 2003, a check signed by Linda Brown was issued to Sam's Club in the amount of $1,925 to pay credit card statement dated January 8, 2003. This amount included prior balance of $1,635 for which there was no documentation to substantiate purchases made to support a proper public purpose.

The school does not have a purchasing policy specific to credit card usage, however, the school policy requires receipts for all purchases made. Linda Brown, Business Manager, was responsible for maintaining receipts and payment of bills. All checks are required to be signed by both Business Manager and Superintendent.

The above reasons led to the finding for recovery from Linda Brown, Business Manager. In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery in favor of Phoenix Community Learning Center for the illegal expenditure of public monies, is hereby issued against Linda Brown, Business Manager in the amount of one thousand six hundred thirty five dollars ($1,635).

FINDING NUMBER 2003-002

Finding for Recovery – Repaid under Audit

Ms. Ester Lajuan, Teacher, received a check on April 4, 2003 in the amount of $250 for meal advances for a conference trip. According to school policy, each employee is allowed $25 per diem with receipts and the remaining balance is due within 5 days of returning to work. The per diem advance of $250 ($25 per day meals expense) was not properly supported by restaurant receipts for meals consumed and there was no evidence of remaining reimbursed to PCLC within 5 days of returning to work. A reconciliation on the advance and meal expenses follows:

FINDING NUMBER 2003-002
(Continued)

Description	Amount
Advance for Meals	$ 250
Receipts for Meals	97
Total to be Reimbursed	$ 153

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ms. Ester Lajuan, Teacher, and in favor of Phoenix Community Learning Center in the amount of one hundred and fifty-three dollars ($153). This amount was paid under audit.

FINDING NUMBER 2003-003

Finding for Recovery – Repaid under Audit

Ms. Shawn Scott, Administrative Assistant, received a check on April 4, 2003 in the amount of $300 for meal advances for a conference trip. According to school policy, each employee is allowed $25 per diem with receipts and the remaining balance is due within 5 days of returning to work. The per diem advance of $250 ($25 per day meals expense) was not properly supported by restaurant receipts for meals consumed and there was no evidence of remaining reimbursed to PCLC within 5 days of returning to work. A reconciliation on the advance and meal expenses follows:

Description	Amount
Advance for Meals	$ 300
Receipts for Meals	58
Total to be Reimbursed	$ 242

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ms. Shawn Scott, Administrative Assistant, and in favor of Phoenix Community Learning Center in the amount of two hundred and forty-two dollars ($242). This amount was paid under audit.

FINDING NUMBER 2003-004

Finding for Recovery – Repaid under Audit

During fiscal year 2003, Ms. Elaine Wilson, Principal received a check on April 4, 2003 in the amount of $300 for meal advances for a conference trip. According to school policy, each employee is allowed $25 per diem with receipts and the remaining balance is due within 5 days of returning to work. The per diem advance of $300 ($25 per day meals expense) was not properly supported by restaurant receipts for meals consumed and there was no evidence of remaining reimbursed to PCLC within 5 days of returning to work. A reconciliation of the advance and meal expenses follows:

Description	Amount
Advance for Meals	$ 300
Receipts for Meals	102
Total to be Reimbursed	$ 198

FINDING NUMBER 2003-004
(Continued)

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ms. Elaine Wilson, Principal, and in favor of Phoenix Community Learning Center in the amount of one hundred and ninety-eight dollars ($198). This amount was paid under audit.

FINDING NUMBER 2003-005

Finding for Recovery – Repaid under Audit

During fiscal year 2003, Ms. Geraldine Latham, Lead Teacher, received a check on April 4, 2003 in the amount of $300 for meal advances for a conference trip. According to school policy, each employee is allowed $25 per diem with receipts and the remaining balance is due within 5 days of returning to work. The per diem advance of $300 ($25 per day meals expense) was not properly supported by restaurant receipts for meals consumed and there was no evidence of remaining reimbursed to PCLC within 5 days of returning to work. A reconciliation of the advance and meal expenses follows:

Description	Amount
Advance for Meals	$ 300
Receipts for Meals	-
Total to be Reimbursed	$ 300

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ms. Geraldine Latham, Literacy Consultant, and in favor of Phoenix Community Learning Center in the amount of three hundred dollars ($300). This amount was paid under audit.

FINDING NUMBER 2003-006

Noncompliance – Record Retention

Ohio Rev. Code, Section 149.351, provides that no public record shall be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code, Section 149.38 to 149.42.

PCLC was either missing or had misfiled many documents. The change of Business Manager/Treasurer might have been a contributing factor. For example, PCLC was unable to locate the following:

- State Tax forms for 38% of employees;

- Retirement System forms for 14% of employees.

We recommend that PCLC retain all source documents and organize them so that important records are secure, organized and accessible to management.

FINDING NUMBER 2003-007

Noncompliance – Payroll Withholdings

26 U.S.C., Section 3402, requires every employer to deduct and withhold from each employee's compensation federal tax. Ohio Rev. Code, Section 5747.06, requires every employer to deduct and withhold from each employee's compensation state income tax. Furthermore, 26 CFR 61(a)(1), states that, except as otherwise provided in subtitle A of the Internal Revenue Code of 1986, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items. Ohio Rev. Code, Section 3314.10, subjects community schools to either Chapter 3307 or 3309. Ohio Rev. Code, Sections 3307.26 and 3309.47, STRS and SERS respectively, require schools to pay employee and employer pension costs to these retirement systems on all wages earned.

Twenty-seven (27) checks totaling $23,010 were issued to various teachers for additional pay for training, substitute teaching, administrative staff for bonuses and audit work, and students for summer work that were not included in the payroll processing. This results in a liability of $3,221 for the PCLC's employer portion of the STRS and SERS withholdings. This amount has been accrued in the financial statements.

Processing these checks outside the payroll cycle resulted in no deductions being withheld for Federal, State, and Local Taxes, as well as for SERS and STRS. These amounts were also not reported on employees' Federal forms W-2 or 1099. This includes both the employer and employee portions. The failure to withhold these deductions could lead to PCLC and each employee being required to remit the proper amounts to the various governmental agencies.

Therefore, we recommend PCLC contact these various governmental agencies to determine any necessary action to correct this situation.

FINDING NUMBER 2003-008

Noncompliance – Purchase Orders

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. PCLC failed to execute a purchase order for 23.7 percent (23.7%) of the expenditures tested. Failure to execute and approve purchase orders for all expenditures could result in improper or unnecessary expenditures.

We recommend PCLC execute a purchase order for all potential expenditures. We also recommend the Superintendent and Treasurer review all purchase orders to ensure the expenditures are proper and necessary.

FINDING NUMBER 2003-009

Noncompliance – Background Checks

PCLC's Charter requires the following:

- PCLC shall request a criminal record check to be completed by the Bureau of Criminal Identification and Investigation (BCI & I) for each newly elected and/or appointed board member. If one of the board members fails to pass the criminal records check, his or her appointment to the board shall be void.

- PCLC shall request the superintendent of the BCI & I to conduct a criminal records check with respect to any applicant who has applied to PCLC for employment in any position as a person responsible for the care, custody, or control of a child pursuant to section 3319.39 of the Ohio Revised Code.

- PCLC shall not hire a person for any position responsible for the care, custody, or control of a child until it receives a favorable criminal records check for the person from the BCI & I.

We noted fifty-five percent (55%) of employees and board members had a BCI & I background check performed after he or she was hired or appointed to the board.

Failing to provide background checks for all who are employed by PCLC could potentially expose students to persons with unfavorable backgrounds, who should not be responsible for the welfare of children, or responsible for the accounting function or custody of assets.

We recommend that PCLC obtain BCI & I background checks for all Board Members and all employment applicants prior to his or her employment as a person responsible for the care and custody of children.

FINDING NUMBER 2003-010

Reportable Condition- Expenditures

Effective internal controls over all expenditures is an important and necessary part of ensuring that only proper and authorized expenditures are made on behalf of PCLC. Internal controls over purchasing were not in place and not operating effectively for the audit period. The following errors were noted during testing of controls for nonpayroll expenditures:

- 26.7% of expenditures tested did not have an approved purchase order;

- 43.8% of expenditures were not approved by the purchaser to verify goods or services were received.

- 30% of expenditures were not adequately supported by proper documentation.

- Two (2) advances totaling $203,095 from the General Fund to the Special Revenue Fund were not approved by the Board.

- Checks were not issued in sequential order. All checks issued were manual checks, not using the USAS computer system to generate the check.

FINDING NUMBER 2003-010
(Continued)

These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of PCLC assets. Proper documentation is necessary to ensure that monies were disbursed for a proper public purpose and for management to determine if monies were disbursed consistent with its wishes. The processing of non-payroll disbursements should include, but is not limited to:

- Requiring and maintaining documentation to support expenditures by maintaining, for all expenditures, a voucher packet. This would include the purchase order, copy of the check, original invoice, or receipt.

- Board approval of advances ensures that the advances are made in compliance with applicable laws.

- Using checks in sequential order is a simple but effective internal control to ensure that missing checks can be identified in a timely manner. Limiting the use of manual checks ensures that check information (date, amount, and payee) matches the check register. Manual checks are also more susceptible to alterations that might go undetected.

FINDING NUMBER 2003-011

Reportable Condition – Payroll Expenditures

The following were noted relating to payroll:

- PCLC does not document a reconciliation of hours employees worked and their respective pay rates included on PCLC's payroll records and time/sign-in sheets to Paychex payroll reports.

- PCLC used school-wide sign in/out sheet for each week. The Superintendent approves the time sheets by signing the Payroll Changes & Approval form. This control was not put in place until January 3, 2003. We were not able to rely on this control due to the lack of the control for the period of July 1, 2002 through January 3, 2003.

- The Superintendent did not approve fifty-five percent (55%) of employee time sheets reviewed.

- The time-sheets did not consistently indicate which pay period each sheet represented.

- The Board did not review or approve any payroll activity.

- PCLC did not maintain complete personnel files. The following items were missing from employee files:

    - Federal W-4 forms were not on file for 8% of employees.

    - State IT-4 forms were missing for 38% of employees.

    - SERS or STRS forms were not on file for 14% of employees.

Failure to establish a favorable control environment could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures. The following procedures should be applied to make sure that a favorable control environment is in place to identify misstatements either as they occur or through the review process:

FINDING NUMBER 2003-011
(Continued)

- Approve payroll summaries sent to Paychex.

- Reconcile PCLC payroll summaries of employee hours worked and his or her respective pay rates to the Paychex reports that include the rate and number of hours for which an employee was paid.

- Approve each time-sheet as set by PCLC policy.

- Obtain Board approval of monthly payroll expenditures.

- Obtain employee contracts, W-4 forms, IT-4 forms, retirement forms, and teacher certifications and retain them in each employee's file.

FINDING NUMBER 2003-012

Reportable Condition – Budgetary/Financial Reporting

The existence of effective controls over the budgetary and financial reporting processes is essential to ensure that management's desires are implemented. Timely and accurate reconciliations are an effective tool to help management determine the completeness and accuracy of recorded transactions. The following conditions were noted at PCLC:

- The Business Manager and Treasurer did not present the Board with financial information on an adequate and consistent basis;

- The Board did not approve the Fiscal Year 2003 School Budget until November 21, 2002;

- The Business Manager did not consistently perform monthly bank reconciliations each month, therefore reconciliations between bank and book were not consistently performed;

- Financial data was not timely entered into the SWOCA system until January, 2003. Inaccurate data was posted for revenues and disbursements requiring year end correcting entries;

- PCLC had negative cash fund balances throughout the fiscal year which is evidenced in advances from the General Fund to the Special Revenue Fund.

Board or management review of incorrect or insufficient information could lead to poor assumptions and decision making. Without complete and accurate monthly bank reconciliations, the school's internal control is significantly weakened, which could hinder the detection of errors or irregularities by PCLC's management in a timely manner. Providing the Board with timely fiscal information is vital to the continued operations and decision making process of the school as well as management's ability to manage operations.

We recommend that each month, as part of the review of the minute records, the Board review and approve the following financial information:

- Monthly bank reconciliations, which includes a comparison of the bank balance to the general ledger balance, a list of all reconciling items, and any supporting documentation;

- Fund balances, so that the Board can monitor each fund's activities to avoid negative balances;

- Receipts, disbursements and bills paid list;

- Budget-to-actual data for revenues and expenditures.

FINDING NUMBER 2003-013

Reportable Condition – Confirmable Revenues

The existence of effective internal controls over the receipts process is an important and necessary part of ensuring that only proper entries for receipts are accounted on behalf of PCLC. Internal controls over confirmable revenue were not in place and not operating effectively for the audit period. The school did not implement application control procedures over the receipts cycle.

Lack of application controls can cause confirmable revenue receipts to be improperly posted to wrong accounts throughout the year which can lead to negative fund balances and misstatement of revenues.

Effective application controls help ensure the accuracy of accounting for and properly posting confirmable revenue receipts as data is entered into the financial system. Application controls can consist of performing monthly reconciliations, preparing receipts when revenues are received, and verifying the correct fund to which the receipt is posted.

FINDING NUMBER 2003-014

Reportable Condition – Non-payroll disbursements

The following items were noted during non-payroll test of details:

- Four checks totaling $1,417 were issued to vendors that have not been recorded and have not cleared the school's bank account.
- 43.5% of expenditures had check dates that did not match to the dates entered into the ledger system.
- Of the 43.5% of expenditures, 15.4% of the checks were dated before the check date entered into the ledger system.
- Of the 43.5% of expenditures, 28% of the checks were dated after the check date entered into the system.

We recommend PCLC properly account for nonpayroll disbursements in order to correctly report expenditures.

FINDING NUMBER 2003-015

Reportable Condition – Payroll disbursements

The following items were noted during payroll testing:

- Four employees were overpaid a combined total of $1,294.15;
- Two employees were underpaid a combined total of $535.80;
- Four employees FY 2003 salaries were not properly documented by individual employee contracts;
- Twenty-seven (27) employees received $75 payments for weekend training sessions that were not properly documented with supplemental contracts or alternative documentation approving the reasons for additional pay;
- Twenty-three (23) employees paid Medicare tax for only part of the year. Medicare taxes were no longer deducted after December 2003.

Lack of proper documentation over payroll can result in over/underpayments to employees.

We recommend PCLC to properly document all payments to employees to ensure accuracy of payroll disbursements.

We recommend PCLC contact the proper governmental agencies regarding lack of Medicare withholdings to determine any necessary action to correct this situation.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Title 1 and National School Lunch Program Expenditures

Finding Number	2002-10431-016
CFDA Title and Number	Title I, CFDA# 84.010 NSLP, CFDA# 10.555
Federal Award Number / Year	C1-S1 / Fiscal Year 06/30/2003 N/A / Fiscal Year 06/30/2003
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

INTERNAL CONTROLS – REPORTABLE CONDITION

The Title I and National School Lunch expenditures of $202,730 and $74,846 respectively are processed in the same cycle as other non-payroll and payroll expenditures as well as budgetary and financial reporting cycles. Therefore, the weaknesses described in Finding Numbers 2003-010 through 2003-013, may also adversely affect Title I and National School Lunch expenditures.

Lack of proper implementation of internal controls could lead to loss of Federal funding.

We recommend that PCLC implement appropriate internal control procedures as detailed in Finding Numbers 2003-010 through 2003-013 above.

2. National School Lunch Program Internal Controls

Finding Number	2003-017
CFDA Title and Number	NSLP, CFDA# 10.555
Federal Award Number / Year	N/A / Fiscal Year 06/30/2003
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

INTERNAL CONTROLS – REPORTABLE CONDITION

The PCLC does not have proper internal controls placed in operation over the National School Lunch program.

Lack of proper implementation of internal controls could lead to loss of Federal funding.

We recommend that PCLC implement appropriate internal control procedures in order to ensure compliance with Federal Funding such as:

- Approve the grant application before it is sent electronically by the Superintendent;
- Review and Approve Reimbursement reports;
- Document receipts received;
- Approve monthly CN7 reports;
- Reconcile daily Café System Reports to CN7 reports.

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PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-10431-001	Finding for Recovery against G. Smith for conference expenditures	Yes	Finding no longer valid, documentation for expenses received after report issued.
2002-10431-002	Finding for Recovery against G. Smith for not fully reimbursing SERS pickup	Yes	Finding no longer valid, documentation for repayment and explanation received after report issued.
2002-10431-003	Finding for Recovery against G. Smith for public money collected but not accounted for.	Yes	Finding no longer valid, documentation for bank reconciliation and deposits received after report issued.
2002-10431-004	Noncompliance Record Retention, the school did not properly maintain public records	No	Partially corrected. Reissued as Finding 2003-006.
2002-10431-005	Noncompliance Payroll withholdings, school did not withhold all required withholdings from employees payroll.	No	Reissued as Finding 2003-007.
2002-10431-006	Noncompliance Budget, the school did not comply with budget stated in the schools charter.	Yes	Finding no longer valid. The budget in charter was in effect for prior year. The community school is not required to follow ORC budgetary laws unless indicated in school's charter or new legislation.
2002-10431-007	Noncompliance Purchase Orders, the school did not properly use purchase orders for expenditures	No	No corrected. Reissued as Finding 2003-008.

2002-10431-008	Noncompliance Encumbering, the school did not properly encumber outstanding purchase orders as required by school charter	Yes	
2002-10431-009	Noncompliance Disbursements The school did not follow check signing authority	Yes	
2002-10431-010	Noncompliance Background Checks, the school did not properly follow requirements of BCI Checks upon hiring personnel and appointing members to the board	No	Reissued as Finding 2003-009
2002-10431-011	Material Weakness/ Reportable Condition, the school did not place proper internal controls over the expenditure process	No	Reissued as Findings 2003-010
2002-10431-012	Material Weakness/ Reportable Cond., school did not place proper internal controls over the payroll cycle	No	Partially corrected. Reissued as Findings 2003-011.

2002-10431-013	Material Weakness/ Reportable Cond., the school did not place proper internal controls over financial reporting and financial reconciliations and bookkeeping	No	Reissued as Findings 2003-012.
2002-10431-014	Reportable Condition, the school did not establish an advance/re-imbursement policy for travel expenses	Yes	
2002-10431-015	Reportable Condition, Deposit Collateralization The school did not obtain insurance or collateral agreement for deposits in excess of FDIC coverage	Yes	
2002-10431-016	Federal Questioned Costs, the school did not properly expend federal Title I monies.	N/A	
2002-10431-017	Noncompliance Over federal requirement for Title I regarding lack of debarrement verification for contracts	Yes	

2002-10431-018	Reportable Condition, Internal Controls The school did not place effective controls over payroll and nonpayroll expenditures for federal expenses	No	Reissued as Finding 2003-016.

Auditor of State
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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
MARCH 4, 2004