FAMILY LEARNING CENTER
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

FAMILY LEARNING CENTER
LUCAS COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Family Learning Center, Lucas County, (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 School'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 basic financial statements referred to above present fairly, in all material respects, the financial position of Family Learning Center, Lucas County, as of June 30, 2005, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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www.auditor.state.oh.us

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.

Betty Montgomery

Betty Montgomery
Auditor of State

April 24, 2006

FAMILY LEARNING CENTER
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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

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

Financial Highlights

- In total, net assets increased $38,974, which represents a 29.1 percent increase from 2004. This increase was due to an increase in Cash and Cash Equivalents.

- Total assets increased $85,519, which represents a 27.7 percent increase from 2004. This was primarily due to an increase in cash and cash equivalents and an increase in intergovernmental receivables.

- Total Liabilities increased $46,545, which represents a 10.5 percent increase from 2004. Accounts payable increased by $71,268, due to the timing of purchases and compensated absences payable decreased $8,489, accrued wages and benefits decreased by $2,417, and intergovernmental payables related to accrued pension benefits decreased by $552. The decreases in accrued wages and benefits, compensated absences payable, and accrued pension benefits were due primarily to decreases in employee contracts and the employee's contract remaining accrual amount. Total non-current liabilities decreased by $20,365, due primarily to decreases in debt outstanding.

Using this Financial Report

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

Reporting the School as a Whole

One of the most important questions asked about the School is, "As a whole, what is the School's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School's financial statements, report information on the School as whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the School.

The Statement of Net Assets and the Statement of Activities report the activities for the School, which encompass all the School's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)
Net Assets

	2005	2004
Assets		
Current Assets	$ 253,060	$ 142,346
Capital Assets, Net	141,185	166,380
Total Assets	394,245	308,726
Liabilities		
Current Liabilities	370,891	303,981
Non-Current Liabilities	118,389	138,754
Total Liabilities	489,280	442,735
Net Assets		
Invested in Capital Assets, Net of Related Debt	9,616	14,449
Restricted for Grants	26,288	72,223
Unrestricted	(130,939)	(220,681)
Total Net Assets	$ (95,035)	$ (134,009)

Total assets increased $85,519. This was primarily due to an increase in current assets of $110,714, Intergovernmental receivables decreased $30,037, while cash and cash equivalents increased by $41,307, accounts receivable decreased by $1,294 and prepaid items increased by $19,504.

Table 2 shows the changes in net assets for fiscal year 2005 compared to fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2005	2004
Operating Revenues:		
Charges for Services and Sales	$ 33,499	$ 39,919
Foundation Payments	1,491,395	1,538,442
Disadvantaged Pupil Impact Aid	56,000	21,325
Special Education	166,609	187,403
Other	14,798	8,704
Total Revenues	1,762,301	1,795,793
Operating Expenses		
Salaries	1,149,569	1,172,087
Fringe Benefits	314,735	365,541
Purchased Services	544,850	455,500
Materials and Supplies	114,164	120,177
Depreciation	55,554	49,864
Other Expenses	6,051	5,775
Total Expenses	2,184,923	2,168,944
Non-Operating Revenues and (Expenses)		
Operating Grants - Federal	428,596	220,413
Operating Grants - State	47,178	42,268
Interest	133	186
Interest and Fiscal Charges	(14,311)	(12,134)
Total Non-Operating Revenues and (Expenses)	461,596	250,733
Increase / (Decrease) in Net Assets	$ 38,974	$ (122,418)

While operating revenues decreased from 2004 to 2005, operating expenses increased slightly. This and an increase in non-operating revenues produced an overall increase in Net Assets of $38,974. There was a decrease in operating revenues of $33,492 and an increase in operating expenses of $15,979 from 2004. Of the $1,762,301 in revenues, the foundation payments decreased by $47,047, and the Special Education decreased by $20,794. Community Schools receive no support from tax revenues.

For 2005 the expense for salaries decreased by $22,518, and the expense for fringe benefits decreased by $50,806. This was primarily due to staff reductions during fiscal year 2005. Purchased services expense increased by $89,350 and material and supplies expense decreased by $6,013 from 2004. For 2005 depreciation expense increased by $5,690.

Capital Assets

At the end of fiscal year 2005 the School had $128,005 (net of $151,673 in accumulated depreciation) invested in furniture, equipment, and leasehold improvements. Table 3 shows fiscal year 2005 and fiscal year 2004:

(Table 3)
Capital Assets at June 30
(Net of Depreciation)

	2005	2004
Furniture, Fixtures, and Equipment	$ 46,285	$ 39,638
Leasehold Improvement	81,720	113,562
Totals	$ 128,005	$ 153,200

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

Debt

At June 30, 2005, the School had $168,379 in outstanding debt, $71,267 of which is due within one year. Table 4 summarizes the debt outstanding.

(Table 4)
Outstanding Debt, at Year End

	2005	2004
Note Payable	$ 49,990	$ 51,500
Installment Note	$ 118,389	$ 135,590
Capital Leases	-	3,164
Total Outstanding Debt	$ 168,379	$ 190,254

For more information on debt see Note 7 to the basic financial statements.

Current Financial Issues

Family Learning Center of Northwest Ohio Inc., d.b.a. Alliance Academy of Toledo (the School) was formed in 2000 and approved for operation under a five year contract with the Lucas County Educational Service Center (the Sponsor). During the 2004/2005 school year, there were approximately 344 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2005 amounted to $5,169 per student.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Jerri Heer of Family Learning Center, Administrative Director at Family Learning Center, 1501 Monroe Street, 2nd Floor, Toledo, Ohio 43624-1752 or e-mail at school@tflctoledo.org.

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$ 43,937
Receivables:	
Intergovernmental	182,019
Prepaid Items	27,104
Total Current Assets	253,060
Non-Current Assets	
Security Deposits	13,180
Depreciable Capital Assets, Net	128,005
Total Non-Current Assets	141,185
Total Assets	394,245
Liabilities	
Current Liabilities	
Accounts Payable	78,266
Accrued Wages and Benefits	182,329
Compensated Absences Payable	13,720
Due to Students	4,048
Intergovernmental Payable	41,369
Accrued Interest Payable	1,169
Note Payable	49,990
Total Current Liabilities	370,891
Non-Current Liabilities	
Due Within One Year	21,277
Due In More Than One Year	97,112
Total Non-Current Liabilities	118,389
Total Liabilities	489,280
Net Assets	
Invested in Capital Assets, Net of Related Debt	9,616
Restricted for Grants	26,288
Unrestricted	(130,939)
Total Net Assets	$ (95,035)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating Revenues	
Foundation Payments	$ 1,491,395
Disadvantaged Pupil Impact Aid	56,000
Special Education	166,609
Lunchroom Sales	18,727
Classroom Fees	14,772
Other Revenues	14,798
Total Operating Revenues	1,762,301
Operating Expenses	
Salaries	1,149,569
Fringe Benefits	314,735
Purchased Services	544,850
Materials and Supplies	114,164
Depreciation	55,554
Other	6,051
Total Operating Expenses	2,184,923
Operating Loss	(422,622)
Non-Operating Revenues and Expenses	
Operating Grants - Federal	428,596
Operating Grants - State	47,178
Interest	133
Interest and Fiscal Charges	(14,311)
Total Non-Operating Revenues and Expenses	461,596
Change in Net Assets	38,974
Net Assets Beginning of Year	(134,009)
Net Assets End of Year	$ (95,035)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$ 1,688,041
Cash Received from Disadvantaged Pupil Impact Aid	56,000
Cash Received from Other Operating Revenues	53,131
Cash Payments to Suppliers for Goods and Services	(598,240)
Cash Payments to Employees for Services	(1,144,815)
Cash Payments for Employee Benefits	(344,017)
Net Cash Used for Operating Activities	(289,900)
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	321,023
State Grants Received	73,517
Net Cash Provided by Noncapital Financing Activities	394,540
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(28,449)
Payments for Principal	(21,875)
Payments for Interest	(13,142)
Net Cash Used for Capital and Related Financing Activities	(63,466)
Cash Flows from Investing Activities	
Interest	133
Net Increase in Cash and Cash Equivalents	41,307
Cash and Cash Equivalents at Beginning of Year	2,630
Cash and Cash Equivalents at End of Year	$ 43,937

(Continued)

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (422,622)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	55,554
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	1,294
Decrease in Intergovernmental Receivable	30,037
Increase in Prepaid Items	(19,504)
Increase in Accounts Payable	71,268
Increase in Accrued Wages and Benefits	2,417
Decrease in Compensated Absences	(8,489)
Increase in Due to Students	697
Decrease in Intergovernmental Payable	(552)
Total Adjustments	132,722
Net Cash Used for Operating Activities	$ (289,900)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Family Learning Center d.b.a Alliance Academy of Toledo, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Lucas County Education Service Center (the Sponsor) for a period of five years commencing May 30, 2000. A new contract was signed in June 2005 that allows for annual renewals each June 30th, if both parties agree. If either party wishes to not renew the contract, a 90 day notice must be given to the other party. The Sponsor has sent notice to the School that they will not renew the contract at the end of fiscal year 2006. See Note 18 for further information. The Sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School. (See note 12)

The School operates under the direction of a five-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 23 non-certified and 35 certificated full time teaching personnel who provide services to 344 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

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

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

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Furniture and Equipment	5 years
Leasehold Improvements	5 years

G. Compensated Absences

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

H. Security Deposits

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

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or regulations of other governments.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily the State Foundation Program and the State Special Education Program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

K. 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 those estimates.

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

L. Cash

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

For presentation on the financial statements, investments with an original maturity of three months or less at the time they are purchased by the School are considered to be cash equivalents.

M. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

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 year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

NOTE 3 - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, none of the School's bank balance of $74,204 was exposed to custodial credit risk. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Student Intervention GR 9-10 PD 2005	$ 55
Student Intervention GR 9-10 2005	33
IDEA - B 2005 - Special Ed	34,724
Title I 2005 - Targeted Assistance	82,501
Title I School Improvement 2005	34,621
Title V 2005	1,563
Title IIA 2005	11,448
Title IID 2005	5,401
Federal Reimbursements - May '2005	11,673
Total All Intergovernmental Receivables	$ 182,019

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance at 6/30/04	Additions	Deletions	Balance at 6/30/05
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 90,111	$ 30,359	$ -	$ 120,470
Leasehold Improvements	159,208	-	-	159,208
Total Capital Assets Being Depreciated	249,319	30,359	-	279,678
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	50,473	(23,712)	-	74,185
Leasehold Improvements	45,646	(31,842)	-	77,488
Total Accumulated Depreciation	96,119	(55,554)	-	151,673
Business-Type Activity Capital Assets, Net	$ 153,200	$ (25,195)	$ -	$ 128,005

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2005 the School contracted with the Cincinnati Insurance Company for the following coverages:

Commercial General Liability per Occurrence ($500 Deductible)	$1,000,000
Commercial General Liability Aggregate	2,000,000
Director & Officer Liability per Occurrence ($5,000 Deductible)	1,000,000
Director & Officer Liability Aggregate	1,000,000

There have been no significant changes in insurance coverage from fiscal year 2004 and settled claims, if any, have not exceeded coverage in any of the past three years. The School owns no property, but leases a facility located at 1501 Monroe Street, 2nd Floor, Toledo, Ohio. (See Note 15)

B. Workers' Compensation

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

NOTE 7 - NOTES PAYABLE AND LONG-TERM DEBT

On October 23, 2002, the School entered into a revolving line of credit, establishing a note for $65,000 payable on demand. As of June 30, 2005, $49,990 was the current balance on the note. The loan is collateralized by all business assets.

Short-Term Debt	Balance 07/01/04	Additions	Reductions	Balance 06/30/05
Note Payable	51,500	-	1,510	49,990
	$ 51,500	$ -	$ 1,510	$ 49,990

On August 28, 2003, the School entered into a note, in the amount of $150,000. This note was used primarily for facility improvements. The note bears interest at a variable rate of 2 percentage points above the prime rate. As of June 30, 2005, $118,389 was the current balance on the note. The loan matures on August 28, 2010, and is collateralized by all business assets.

Long-Term Debt	Balance 07/01/04	Additions	Reductions	Balance 06/30/05	Amounts Due in One Year
Note Payable	$ 135,590		$ 17,201	$ 118,389	$ 21,277
Capital Lease Obligations	3,164	-	3,164	-	-
Total	$ 138,754	$ -	$ 20,365	$ 118,389	$ 21,277

NOTE 7 - NOTES PAYABLE AND LONG-TERM DEBT – (Continued)

The following is a schedule of the future payments required under the notes payable as of June 30, 2005:

Year Ending June 30,	Principal	Interest
2006	$ 21,277	$ 7,294
2007	21,132	5,241
2008	22,435	3,938
2009	23,819	2,554
2010	25,288	1,085
2011	4,438	33
Total	$ 118,389	$ 20,145

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were $37,171 and $28,677 and $54,739, respectively; 100 percent has been contributed for fiscal year 2005, 2004 and 2003.

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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 percent of earned compensation into an investment account.

NOTE 8 - DEFINED BENEFIT PENSION PLANS – (Continued)

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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003, were $108,334, $65,854 and $54,739, respectively; 94.40 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

NOTE 9 - POSTEMPLOYMENT BENEFITS

The School 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.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $8,658 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was $3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 115,395 eligible benefit recipients.

NOTE 9 - POSTEMPLOYMENT BENEFITS – (Continued)

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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, 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 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School paid $40,263 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance Benefits

The School has contracted through the Lucas County Educational Service Center to provide dental and medical/surgical benefits to its full time employees. The School also provides vision benefits to most employees through Vision Service Plan.

NOTE 11 - CONTINGENCIES

A. Grants

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

B. State Funding

The Ohio Department of Education (ODE) reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of said review, the School's state foundation funding will be increased by $4,822 for fiscal year 2006, and will be added to future foundation payments.

C. Litigation

A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's community (i.e. Charter) School's 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 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 the Family Learning Center is not presently determinable.

NOTE 12 - FISCAL AGENT

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. A total contract payment of $33,882 was paid during the year and a liability in the amount of $7,534 was accrued for the year ended June 30, 2005.

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

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

- Maintain all books and accounts of the School;

NOTE 12 - FISCAL AGENT – (Continued)

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

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

- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and

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

NOTE 13 - PURCHASED SERVICES

For the fiscal year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$	138,194
Property Services		282,232
Travel Mileage/Meeting Expense		39,499
Communications		12,603
Utilities		15,478
Contracted Craft or Trade Services		55,943
Tuition		901
Total Purchased Services	$	544,850

NOTE 14 - CAPITALIZED LEASE - LESSEE DISCLOSURE

During 2001, the School entered into a capital lease for the phone system. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded as a capital asset at the present value of the future minimum lease payments as of the inception date. Payments made totaled $3,218 for the year. The lease has been paid in full.

NOTE 15 - OPERATING LEASES – LESSEE DISCLOSURE

The School entered into a lease for the period August 1, 2002, through July 31, 2005, with Luttenberger & Company to lease space to house the School. Payments made totaled $239,842 for the year ended June 30, 2005. The School renewed the lease for one additional year through August 14, 2006.

The School also entered into an operating lease commencing December 7, 2000, for a term of 60 months for a copier. Payments made totaled $3,476 in lease payments and meter billings. The copier is owned by Ohio Business Machines.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2005.

Year Ending June 30,	Facility Lease	Copier
2006	$ 18,870	$ 1,605
Total Minimum Payments	$ 18,870	$ 1,605

NOTE 16 - RELATED PARTY TRANSACTION

Letha Ferguson, Education Director, is the sister of Board Member Marsha Penner. Ms. Ferguson received payments or had amounts paid on her behalf totaling $52,474 for the following expenses: Salary of $46,030; employee benefits of $6,444.

NOTE 17 – MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School reduced the 2004 accumulated deficit by $38,974 to $95,035, and has an increase in net assets of $38,974 for the year ended June 30, 2005. The reduction in the Net Asset deficit was the direct result of increased student population and reduction in staffing levels. It is management's plan to eliminate the deficit with the following actions:

- Plan to continue to increase student population;
- Control spending through continued efficient use of personnel.

NOTE 18 – SUBSEQUENT EVENT

The School was notified on December 14, 2005 and January 27, 2006 by the Lucas County Educational Service Center (the sponsor) that the sponsor will not renew the sponsor agreement with the School effective June 30, 2006. As of the date of this report, the School is in negotiations with a new sponsor, but has not signed a formal agreement. If no sponsor agreement is signed by June 30, 2006, the School will cease operations.

Auditor of State
Betty Montgomery

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

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

To the Governing Board:

We have audited the basic financial statements of the Family Learning Center, Lucas County, (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 24, 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 opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated April 24, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

We intend this report solely for the information and use of the finance/audit committee, management, the Governing Board, and Sponsor. It is not intended for anyone other than these specified parties.

Betty Montgomery
Auditor of State

April 24, 2006

Auditor of State
Betty Montgomery

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FAMILY LEARNING CENTER

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 23, 2006