PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

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 Statement of Net Assets of the Phoenix Community Learning Center Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, and the related Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows for the year then ended. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Community Learning Center, Hamilton County, Ohio, as of June 30, 2004, and the changes in financial position and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the years ended June 30, 2004. 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.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

March 31, 2005

The discussion and analysis of Phoenix Community Learning Center's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. 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 the 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 reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- The assets of the School exceeded its liabilities at year-end by $979,196. Of this amount, $657,692 may be used to meet the School's ongoing obligations to citizens and creditors.
- In total, net assets increased by $304,829.
- Total assets increased by approximately $92,000 which represents an 8% increase from the prior year. The increase is primarily due to increases in cash held by the School.

Using this Financial Report

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

Statement of Net Assets

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

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

The following table presents a condensed summary of the School's overall financial position at June 30, 2004 and June 30, 2003:

		2004	2003
Current and other assets	$	984,571	738,812
Capital assets		321,504	475,172
Total assets		1,306,075	1,213,984
Current liabilities		326,879	539,617
Total liabilities		326,879	539,617
Net assets:			
Invested in capital assets, net of debt		321,504	475,172
Unrestricted		657,692	199,195
Total net assets	$	979,196	674,367

Total net assets of the School increased by $304,829 or 45%. The increase in total net assets from fiscal year 2003 is due in part to the school being more aware of the availability of grants, and the utilization of those available grants.

The $92,091 increase in total assets is primarily attributable to increased ending cash balances of the Schools funds offset partially by a decrease in intergovernmental receivables. Total liabilities reported at June 30, 2004 decreased by $212,738 from the amount reported at June 30, 2003, primarily due to a decrease in accounts payable due to timing and deferred revenues of $105,000 which existed at June 30, 2004.

The decrease of $153,668 in net assets invested in capital assets results from recognizing current year depreciation of capital assets ($174,419) which was partially offset by current year capital asset acquisition in the amount of $20,751.

Statement of Revenues, Expenses and Changes in Net Assets

The following table presents a condensed summary of the School's activities for the years ended June 30, 2004 and 2003:

PHOENIX COMMUNITY LEARNING CENTER
Management Discussion and Analysis
June 30, 2004
Unaudited

		2004	2003
Revenues:			
Operating revenues:			
State Foundation	$	2,031,532	2,109,544
DPIA		335,492	326,388
Charges for services		4,117	5,501
Other operating revenues		18,324	21,433
Non-operating revenues:			
Federal grants		800,467	216,414
State grants		17,070	11,000
Interest income		3,524	-
Total revenues		3,210,526	2,690,280
Expenses:			
Operating expenses:			
Salaries and wages		1,391,096	1,207,234
Fringe benefits		338,904	258,404
Purchased services:			
Professional and technical services		176,656	83,672
Property services		329,958	262,558
Communications		36,176	22,512
Utilities		50,362	52,740
Food services		79,114	87,300
Other		75,869	95,000
Materials and supplies		198,884	308,684
Depreciation		174,419	199,734
Other expenses		54,259	165,009
Total expenses		2,905,697	2,742,847
Change in net assets	$	304,829	(52,567)

Revenues increased due to federal grant allocations provided. In total expenses increased by only 6% which is primarily related to salary increases and other inflationary cost increases. The differences in expenses for various line items can be attributed to improvements in coding of expenses from the previous year which better represent the school's spending patterns.

Capital Assets

At June 30, 2004, the School had $321,504 invested in a broad range of capital assets, including leasehold improvements, furniture and equipment.

Capital Assets at Year-End (Net of Depreciation)

		2004	2003
Leasehold improvements	$	277,419	414,277
Equipment and furniture		44,085	60,895
Total	$	321,504	475,172

The decrease of $153,668 in net assets invested in capital assets results from recognizing current year depreciation of capital assets ($174,419) which was partially offset by current year capital asset acquisition in the amount of $20,751.

See Note 7 of the notes to the basic financial statements for more detailed information on the School's capital assets.

Contacting the School

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

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

PHOENIX COMMUNITY LEARNING CENTER
Statement of Net Assets
June 30, 2004

Assets:		
Current assets:		
Cash	$	939,747
Intergovernmental receivable		29,824
Total current assets		969,571
Noncurrent assets:		
Security deposit		15,000
Capital assets, net		321,504
Total noncurrent assets		336,504
Total assets		1,306,075
Liabilities:		
Current liabilities:		
Accounts payable		60,595
Accrued wages and benefits		235,034
Intergovernmental payable		31,250
Total current liabilities		326,879
Net Assets:		
Invested in capital assets, net of related debt		321,504
Unrestricted		657,692
Total net assets	$	979,196

See accompanying notes to the basic financial statements.

PHOENIX COMMUNITY LEARNING CENTER
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004

Operating revenues:		
State Foundation	$	2,031,532
DPIA		335,492
Charges for services		4,117
Other operating revenues		18,324
Total operating revenues		2,389,465
Operating expenses:		
Salaries and wages		1,391,096
Fringe benefits		338,904
Purchased services:		
Professional and technical services		176,656
Property services		329,958
Communications		36,176
Utilities		50,362
Food services		79,114
Other		75,869
Materials and supplies		198,884
Depreciation		174,419
Other expenses		54,259
Total operating expenses		2,905,697
Operating (loss)		(516,232)
Nonoperating revenues:		
Federal grants		800,467
State grants		17,070
Interest income		3,524
Total nonoperating revenues		821,061
Net change in net assets		304,829
Net assets, beginning of year, restated		674,367
Net assets, end of year	$	979,196

See accompanying notes to the basic financial statements.

PHOENIX COMMUNITY LEARNING CENTER
Statement of Cash Flows
Year Ended June 30, 2004

Cash flows from operating activities:		
Cash received from State of Ohio - Foundation	$	2,031,532
Cash received from State of Ohio - DPIA		332,915
Cash received from customers		4,461
Cash received from other operating sources		30,218
Cash payments for personal services		(1,731,835)
Cash payments for contract services		(748,297)
Cash payments for supplies and materials		(314,436)
Cash payments for other expenses		(75,951)
Net cash used by operating activities		(471,393)
Cash flows from noncapital financing activities:		
Cash received from state and federal grants		829,145
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(20,751)
Principal paid on capital leases		(7,352)
Net cash used by capital and related financing activities		(28,103)
Cash flows from investing activities:		
Investment income		3,524
Net change in cash		333,173
Cash at beginning of year		606,574
Cash at end of year	$	939,747

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

Operating loss		(516,232)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		174,419
Changes in assets and liabilities:		
Accounts receivable		12,238
Intergovernmental receivable		(2,577)
Accounts payable		(132,465)
Accrued wages and benefits		7,353
Intergovernmental payable		(14,129)
Net cash used by operating activities	$	(471,393)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

The PCLC uses enterprise accounting to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities is defined as net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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

C. BUDGETARY PROCESS

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code, Chapter 5705, unless specifically provided in a school's contract with its sponsor. The Contract between the PCLC and the Sponsor prescribes a budgetary process for the PCLC requiring the Superintendent, Business Manager/Treasurer, and the Board to review the financial statements on a monthly basis. In addition, the PCLC is required to prepare an updated forecast on a monthly or quarterly basis.

D. CASH

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

E. CAPITAL ASSETS AND DEPRECIATION

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

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the capital assets. Improvements to the leased building are depreciated over the remaining life of the lease. The PCLC does not 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 which they are earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the PCLC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the PCLC on a reimbursement basis.

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

G. ESTIMATES

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

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.

I. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, PCLC has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, and GASB Statement No. 38, “Certain Financial Statement Note Disclosures”.

GASB 34 creates new basic financial statements for reporting on PCLC’s financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user’s ability to interpret the information within the statements.

4. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments have been made to amend the prior year financial statements. First, accrued wages and benefits were understated by $190,000. Second, capital assets were understated by $113,436. The table below shows the effect on net assets as of June 30, 2003.

Net assets as of June 30, 2003	$	750,931
Accrued wages and benefits		(190,000)
Capital assets		113,436
Net assets as of June 30, 2003, restated	$	674,367

5. DEPOSITS

At June 30, 2004, the PCLC had a cash balance of $939,747. The bank balance was $970,388, of which $100,000 was covered through the Federal Depository Insurance Corporation (FDIC). The remaining $870,388 was covered under a pooled collateral agreement.

6. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables at June 30, 2004, consisted of intergovernmental grants. All intergovernmental receivables are considered collectible in full given the stable condition of State programs and the current fiscal year guarantee of federal funds. The principal items of intergovernmental receivables as of June 30, 2004 are as follows:

School Lunch Program	$	16,595
Title VI-B		8,293
Title V		2,359
DPIA		2,577
	$	29,824

7. CAPITAL ASSETS

A summary of the capital assets as of June 30, 2004, is as follows:

		Restated Balance 7/1/03	Additions	Disposals	Balance 6/30/04
Leasehold improvements	$	684,289	-	-	684,289
Equipment and furniture		136,042	20,751	-	156,793
Totals at historical cost		820,331	20,751	-	841,082
Less accumulated depreciation:					
Leasehold improvements		270,012	136,858	-	406,870
Equipment and furniture		75,147	37,561	-	112,708
Total accumulated depreciation		345,159	174,419	-	519,578
Capital assets, net	$	475,172	(153,668)	-	321,504

8. 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 2004, the PCLC contracted with Market Finders Insurance Company for property and general liability insurance. The policy's general aggregate, personal and advertising injury, and each occurrence limit is $1,000,000 with a $250 deductible. There has been no reduction in coverage from the prior year and settled claims have not exceeded PCLC's coverage in any of the past three years.

B. Workers' Compensation

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

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The PCLC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 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. 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, 2004, 2003, and 2002 were approximately $40,000, $38,000 and $80,000, respectively; 100% percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

The PCLC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad 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, 2004, plan members were required to contribute 10.0 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 for the fiscal years ended June 30, 2004, 2003 and 2002, were approximately \$128,000, \$104,000, and \$92,000, respectively; 100% percent has been contributed for all three fiscal years.

10. 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 $9,000 during fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was $2.8 billion at June 30, 2003 (latest information available). For the year ended June 30, 2003, net health care costs paid by STRS were $352.3 million and STRS had 108,294 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, was approximately $17,000 during the 2004 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, 2003 (the latest information available), were $204.9 million and the target level was $307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefit of $303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. 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.

12. 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, 2004, based on 37,223 square footage of rental space:

Year Ended June 30		
2005	$	242,015
2006		260,631
	$	502,646

13. 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, 2004.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2005, as a result of such review.

C. 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 PCLC is not presently determinable.

14. 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.

15. BOARD MEMBERS

Board members received no compensation for the FY 2004 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 and Mr. Luther Brown, Board President, who are co-founders of PCLC, are married. Dr. Glenda Brown received a bonus of $15,000 during the fiscal year.

The PCLC hired Dr. Glenda Brown’s niece Ms. Jevelyn Latham Hubbard, as a Literacy Consultant at a rate of $120 per hour. Ms. Jevelyn Latham was paid $17,090 during the fiscal year.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	LL-P1 & LL-P4	10.555	$61,344
Total U.S. Department of Agriculture			**61,344**
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education:			
Special Education Cluster:			
Special Education Grants to States (Title VI-B)	6BSF & 6BSX	84.027	73,106
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	542,741
Federal Start Up Program	CH-S1	84.282	150,000
Education Technology	TJ-S1	83.318	15,048
Title V -- Innovative Education Program Strategies	C2-S1	84.298	3,778
Improving Teacher Quality	TR-S1	84.367	47,212
Safe and Drug Free Schools	DR-S1	84.186	7,763
Total U.S. Department of Education			**839,647**
Totals			**$900,992**

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

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

NOTES TO THE FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

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 basic financial statements of the Phoenix Community Learning Center, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated March 31, 2005, wherein we noted the School adopted Government Accounting Standards Board Statements 34. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's basic 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated March 31, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
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This report is intended for the information and use of management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery
Auditor of State

March 31, 2005

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 (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. Phoenix Community Learning Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Phoenix Community Learning Center's management. Our responsibility is to express an opinion on Phoenix Community Learning Center'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 Phoenix Community Learning Center'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 Phoenix Community Learning Center's compliance with those requirements.

In our opinion, the Phoenix Community Learning Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Phoenix Community Learning Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Phoenix Community Learning Center'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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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, and 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

March 31, 2005

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	Finding for Recovery– (A) Against Linda Brown for moneys collected but not accounted. (B) Against Linda Brown for illegal expenditure of public monies	N/A	Linda Brown is no longer employed by Phoenix CLC as the Business Manager. School performs monthly bank reconciliations All expenditures must be signed by appropriate personnel before funds are spent. This matter has been referred to the County Prosecutor.
2003-002 thru 2003-005	Finding for Recovery – Repaid under Audit. Regarding	Yes	
2003-006	Ohio Rev. Code, Section 149.351, Record Retention	No	Partially Corrected, issued as a Management Letter Comment
2003-007	26 U.S.C, Section 3402 requires employer payroll withholdings	Yes	
2003-008	Noncompliance-Purchase Orders PCLC failed to execute and approve PO's for all non payroll related expenditures	Yes	
2003-009	Noncompliance-Background Checks for newly elected board members and all employment applicants	No	Partially Corrected, issued as a Management Letter Comment
2003-010	Reportable Condition-Non payroll Expenditures	No	Partially Corrected, issued as a Management Letter Comment
2003-011	Reportable Conditions Payroll Expenditures	Yes	
2003-012	Reportable Conditions Budgetary/Financial Reporting	Yes	
2003-013	Reportable Conditions Confirmable Revenues	Yes	
2003-014	Reportable Conditions Non-Payroll disbursements Checks	Yes	
2003-015	Reportable Conditions Payroll disbursements Medicare withholdings	Yes	

Auditor of State
Betty Montgomery

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PHOENIX COMMUNITY LEARNING CENTER

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 12, 2005