FAMILY LEARNING CENTER
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

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, 2004 , as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these basic 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 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, 2004, 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 February 24, 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. 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.

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Management's 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, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

February 24, 2005

The discussion and analysis of the Family Learning Center's financial performance provides an overall review of the School's 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 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 decreased $122,418, which represents a 1,056.1 percent decrease from 2003. This decrease was due to expenditures increasing substantially more than revenues increased.

- Total assets increased $130,643, which represents a 73.4 percent increase from 2003. This was primarily due to an increase in intergovernmental receivables and capital assets.

- Total Liabilities increased $253,061, which represents a 133.4 percent increase from 2003. Accrued wages and benefits increased by $132,396, while intergovernmental payables related to accrued pension benefits increased by $16,647. The increases in accrued wages and benefits and accrued pension benefits were due primarily to increases in employee contracts and the employee's contract remaining accrual amount. Total non-current liabilities increased by $135,590, due to $150,000 of new debt issued. The proceeds were used primarily for capital acquisitions. Accounts payable decreased by $21,173, due to the timing of purchases.

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.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and 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.

Table 1 provides a summary of the School's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	$ 142,346	$ 112,633
Capital Assets, Net	166,380	65,450
Total Assets	308,726	178,083
Liabilities		
Current Liabilities	303,981	186,510
Non-Current Liabilities	138,754	3,164
Total Liabilities	442,735	189,674
Net Assets		
Invested in Capital Assets, Net of Related Debt	14,449	65,450
Restricted for Grants	72,223	
Unrestricted	(220,681)	(77,041)
Total Net Assets	$ (134,009)	$ (11,591)

Total assets increased $139,643. This was primarily due to an increase in capital assets of $99,756 and an increase in intergovernmental receivables of $29,225, while cash and cash equivalents decreased by $7,835, accounts receivable increased by $1,075 and prepaid items increased by $7,248.

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2003, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Charges for Services and Sales	$ 39,919	$ 20,403
Foundation Payments	1,538,442	939,533
Disadvantaged Pupil Impact Aid	21,325	20,907
Special Education	187,403	85,562
Other	8,704	2,368
Total Revenues	1,795,793	1,068,773
Operating Expenses		
Salaries	1,172,087	784,583
Fringe Benefits	365,541	204,420
Purchased Services	455,500	304,067
Materials and Supplies	120,177	89,752
Depreciation	49,864	19,705
Other Expenses	5,775	5,463
Total Expenses	2,168,944	1,407,990
Non-Operating Revenues and (Expenses)		
Operating Grants - Federal	220,413	340,025
Operating Grants - State	42,268	18,918
Interest	186	718
Interest and Fiscal Charges	(12,134)	(4,158)
Total Non-Operating Revenues and (Expenses)	250,733	355,503
Increase / (Decrease) in Net Assets	$ (122,418)	$ 16,286

While operating revenues increased from 2003 to 2004, operating expenses increased at a greater rate. This produced an overall increase in the deficit of $122,418. There was an increase in revenues of $630,226 and an increase in expenses of $760,954 from 2003. Of the increase in revenues, the foundation payments increased by $598,909, and the Special Education increased by $101,841. Community Schools receive no support from tax revenues.

For 2004 the expense for salaries increased by $387,504, and the expense for fringe benefits increased by $161,121. This was primarily due to wage increases granted to staff during fiscal year 2004. Purchased services expense increased by $151,433 and material and supplies expense increased by $30,425 from 2003. For 2004 depreciation expense increased by $30,159.

Accumulated Deficit and Operating Loss

The Net Assets deficit of $134,009 was an increase of $122,418 from 2003. The School is analyzing operating and admissions procedures to determine appropriate steps to eliminate the deficit and operating losses.

Capital Assets

At the end of fiscal year 2004 the School had $153,200 (net of $96,119 in accumulated depreciation) invested in furniture, equipment, and leasehold improvements. Table 3 shows fiscal year 2004 and fiscal year 2003:

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

	2004	2003
Furniture, Fixtures, and Equipment	$ 39,638	$ 31,561
Leasehold Improvement	113,562	20,709
Totals	$ 153,200	$ 52,270

For more information on capital assets see Note 6 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 2003/2004 school year, there were approximately 269 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2004 amounted to $4,949 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, 2004

Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$ 2,630
Accounts Receivable	1,294
Intergovernmental Receivable	130,822
Prepaid Items	7,600
Total Current Assets	142,346
Non-Current Assets	
Security Deposits	13,180
Depreciable Capital Assets, Net	153,200
Total Non-Current Assets	166,380
Total Assets	308,726
Liabilities	
Current Liabilities	
Accounts Payable	5,088
Accrued Wages and Benefits	179,912
Compensated Absences Payable	22,209
Due to Students	3,351
Intergovernmental Payable	41,921
Note Payable	51,500
Total Current Liabilities	303,981
Non-Current Liabilities	
Due Within One Year	21,912
Due In More Than One Year	116,842
Total Non-Current Liabilities	138,754
Total Liabilities	442,735
Net Assets	
Invested in Capital Assets, Net of Related Debt	14,449
Restricted for Grants	72,223
Unrestricted	(220,681)
Total Net Assets	$ (134,009)

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, 2004

	Enterprise
Operating Revenues	
Foundation Payments	$ 1,538,442
Disadvantaged Pupil Impact Aid	21,325
Special Education	187,403
Lunchroom Sales	25,769
Classroom Fees	14,150
Other Revenues	8,704
Total Operating Revenues	1,795,793
Operating Expenses	
Salaries	1,172,087
Fringe Benefits	365,541
Purchased Services	455,500
Materials and Supplies	120,177
Depreciation	49,864
Other	5,775
Total Operating Expenses	2,168,944
Operating Loss	(373,151)
Non-Operating Revenues and Expenses	
Operating Grants - Federal	220,413
Operating Grants - State	42,268
Interest	186
Interest and Fiscal Charges	(12,134)
Total Non-Operating Revenues and Expenses	250,733
Change in Net Assets	(122,418)
Net Assets Beginning of Year	(11,591)
Net Assets End of Year	$ (134,009)

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, 2004

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$ 1,695,808
Cash Received from Disadvantaged Pupil Impact Aid	21,325
Cash Received from Other Operating Revenues	52,628
Cash Payments to Suppliers for Goods and Services	(616,378)
Cash Payments to Employees for Services	(1,069,192)
Cash Payments for Employee Benefits	(324,611)
Net Cash Used for Operating Activities	(240,420)
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	247,652
State Grants Received	15,841
Net Cash Provided by Noncapital Financing Activities	263,493
Cash Flows from Capital and Related Financing Activities	
Proceeds from Loans	150,000
Payments for Capital Acquisitions	(150,794)
Payments for Principal	(17,692)
Payments for Interest	(12,608)
Net Cash Used for Capital and Related Financing Activities	(31,094)
Cash Flows from Investing Activities	
Interest	186
Net Cash Provided by Investing Activities	186
Net Decrease in Cash and Cash Equivalents	(7,835)
Cash and Cash Equivalents at Beginning of Year	10,465
Cash and Cash Equivalents at End of Year	$ 2,630

(Continued)

FAMILY LEARNING CENTER
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (373,151)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	49,864
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(1,075)
(Increase) in Intergovernmental Receivable	(30,037)
(Increase) in Prepaid Items	(7,248)
(Decrease) in Accounts Payable	(21,173)
Increase in Accrued Wages and Benefits	132,396
Increase in Intergovernmental Payable	16,647
Increase in Compensated Absences	1,506
Increase in Due to Students	3,351
(Decrease) in Notes Payable	(11,500)
Total Adjustments	132,731
Net Cash Used for Operating Activities	$ (240,420)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Family Learning Center (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 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. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School. (See note 14)

The School operates under the direction of a five-member 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 16 non-certified and 25 certificated full time teaching personnel who provide services to 269 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.

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, 2004, 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.

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.

L. Cash and Investments

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. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

To improve cash management, all cash received by the School is in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments.

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 - CHANGES IN ACCOUNTING PRINCIPLES

For 2004, The School has implemented GASB Statement No. 34, *“Basic Financial Statements - Management’s Discussion and Analysis - for State and Local Governments”*; GASB No. 37 *"Basic Financial Statements for State and Local Governments: Omnibus”*, GASB No. 38, *“Certain financial Statement Note Disclosures”*, and GASB Interpretation No. 6, *“Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”* At June 30, 2004, there was no effect on the financial statements as a result of implementing GASB 34, 37, 38 and Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the School’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management’s Discussion and Analysis.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 4 - DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.”

At June 30, 2004, the carrying amount of the School’s deposits was $2,518 and the bank balance was $55,570. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

The School's investments are categorized to give an indication of the level of risk assumed by the School at year-end. Category 1 includes investments insured or registered for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name. The School's investments total $112, all of which is maintained in a STAR Ohio account, which is not categorized because it is not evidenced by securities that exist in physical or book form.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental grants. 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
State Foundation Payments	$ 30,037
IDEA - B '04 - Special Ed	9,140
Title I '04 - Targeted Assistance	51,672
Title V '04 - Innovative Programs	1,657
Title IIA '04 - Technology	4,615
Title IID ;04	2,289
FY '04 SB-2 D.P.I.A.	26,427
Federal Reimbursements - May '04	4,985
Total All Intergovernmental Receivables	$ 130,822

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance at 6/30/03	Additions	Deletions	Balance at 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 64,012	$ 26,099	$ -	$ 90,111
Leasehold Improvements	34,513	124,695	-	159,208
Total Capital Assets Being Depreciated	98,525	150,794	-	249,319
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	32,451	18,022	-	50,473
Leasehold Improvements	13,804	31,842	-	45,646
Total Accumulated Depreciation	46,255	49,864	-	96,119
Business-Type Activity Capital Assets, Net	$ 52,270	$ 100,930	$ -	$ 153,200

NOTE 7 - 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, 2004, 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

The School owns no property, but leases a facility located at 1501 Monroe Street, 2nd Floor, Toledo, Ohio. (See Note 17.)

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 8 - 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, 2004, $51,500 was the current balance on the note. On August 8, 2003, the School entered into a short-term note in the amount of $30,000, which was repaid on August 28, 2003. The notes bear interest at a variable rate of 2 percentage points above the prime rate and are collateralized by all business assets. The note proceeds were used for general business operations.

Short-Term Debt	Balance 07/01/03	Additions	Reductions	Balance 06/30/04
Note Payable	$ -	$ 30,000	$ 30,000	$ -
Note Payable	63,000	-	11,500	51,500
	$ 63,000	$ 30,000	$ 41,500	$ 51,500

During 2004, the School entered into a note in the amount of $150,000. This debt was used primarily for building improvements. The note bears interest at a variable rate of 2 percentage points above the prime rate. The loan matures on August 28, 2010, and is collateralized by all business assets.

Long-Term Debt	Balance 07/01/03	Additions	Reductions	Balance 06/30/04	Amounts Due in One Year
Note Payable	$ -	$ 150,000	$ 14,410	$ 135,590	$ 18,748
Capital Lease Obligations	6,446	-	3,282	3,164	3,164
Total	$ 6,446	$ 150,000	$ 17,692	$ 138,754	$ 21,912

The following is a schedule of the future payments required under the notes payable as of June 30, 2004:

Year Ending June 30,	Principal	Interest
2005	$ 21,912	$ 7,780
2006	19,904	6,469
2007	21,132	5,241
2008	22,435	3,938
2009	23,819	2,554
2010	25,288	1,085
2011	4,264	33
Total	$ 138,754	$ 27,100

NOTE 9 - 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. 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 School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004 and 2003 were $28,677 and $54,739 respectively; 100 percent has been contributed for fiscal year 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. 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 School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004 and 2003 were $65,854 and $54,739, respectively; 85.50 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003.

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $6,709 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was $3.011 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were $352,301,000 and STRS Ohio 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, 2004, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at $25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled $51,205.

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 $204,930,737 and the target level was $307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of $303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - 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 12 - STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 13 - CONTINGENCIES

A. Grants

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and 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, 2004.

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 $30,037 for fiscal year 2005, 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 effect of this suit, if any on the Family Learning Center is not presently determinable.

NOTE 14 - FISCAL AGENT

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief 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 $35,745 was paid during the year, and a liability in the amount of $3,840 was accrued as a liability for the year ended June 30, 2004.

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;

- 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 15 - PURCHASED SERVICES

For the fiscal year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 145,839
Property Services	226,119
Travel Mileage/Meeting Expense	33,731
Communications	7,351
Utilities	6,184
Contracted Craft or Trade Services	34,584
Tuition	1,692
Total Purchased Services	$ 455,500

NOTE 16 - 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 $3,774 for the year.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

Year Ending June 30,	Principal	Interest
2005	$ 3,164	$ 154

NOTE 17 - 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 $226,119 for the year ended June 30, 2004. The School has the option to renew the lease for two additional five year terms.

The School also entered into an operating lease commencing December 7, 2000 for a term of 60 months for a copier. Payments made totaled $3,210 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, 2004.

Year Ending June 30,	Facility Lease	Copier
2005	$ 226,440	$ 3,210
2006	18,870	1,605
Total Minimum Payments	$ 245,310	$ 4,815

NOTE 18 - RELATED PARTY TRANSACTIONS

Zytech Systems provided services and materials for the School totaling $30,429. Zytech Systems is owned and operated by Michael Penner, the husband of Board Member Marsha Penner.

Letha Ferguson, Education Director, is the sister of Board Member Marsha Penner. Ms. Ferguson received payments or had amounts paid on her behalf totaling $51,636 for the following expenses: Salary - $44,900; employee benefits - $6,286; and curriculum development stipend - $450.

NOTE 19 - MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School accumulated a deficit of $134,009 and has a decrease in net assets of $122,418 for the year ended June 30, 2004. It is management's plan to eliminate the deficit with the following actions:

- Plan to increase student population with expanded facilities.

- The School has been applying for various grants and will continue applying for grants throughout the year.

- The School is making timely payments on the debt and is in a positive cash flow status.

Auditor of State
Betty Montgomery

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

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

To the Governing Board:

We have audited the basic financial statements of the Family Learning Center, Lucas County, (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 24, 2005. 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*.

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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 24, 2005.

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

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

Betty Montgomery

Betty Montgomery
Auditor of State

February 24, 2005

FAMILY LEARNING CENTER
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED 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	Expenditure for an Ohio SchoolNet Conference totaling $290.92 paid to Michael Penner, a consultant, was not considered expenditure for a proper public purpose, since Mr. Penner was not a School employee.	Yes	On January 15, 2004, the $290.92 in question was repaid and deposited in the account of the Family Learning Center.
2003-002	The Education Director and a Board member either authorized or used the authority of their office to secure public contracts for themselves, or members of their family.	No	The Auditor of State's Office referred this issue to the Ohio Ethics Commission. As of the date of our report no action has been taken by the Ethics Commission.

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
APRIL 5, 2005