PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

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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 financial statements of the Phoenix Community Learning Center, Hamilton County, Ohio (the Center), as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Phoenix Community Learning Center, Hamilton County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, 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 July 9, 2009, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 9, 2009

PHOENIX COMMUNITY LEARNING CENTER
Management Discussion and Analysis
June 30, 2006
Unaudited

The discussion and analysis of Phoenix Community Learning Center's (the PCLC) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the PCLC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the PCLC's financial performance.

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

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- The assets of the PCLC exceeded its liabilities at year-end by $122,008. Of this amount, $5,170 may be used to meet the PCLC's ongoing obligations to students and creditors.
- In total, net assets decreased by $531,751. This was due to an increase in expenditures, particularly payroll and capital outlay. Revenues also decreased by 4%.
- Total assets decreased by $518,147, which represents a 50% decrease from the prior year. The decrease is primarily due to decreases in cash held by the PCLC.

Using This Financial Report

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

Statement of Net Assets

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

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

The following table presents a condensed summary of the PCLC's overall financial position at June 30, 2006 and June 30, 2005.

	2006	2005
Current and other assets	$391,609	$760,263
Capital assets	116,838	266,331
Total assets	508,447	1,026,594
Current liabilities	386,439	372,835
Total liabilities	386,439	372,835
Net assets:		
Invested in capital assets, net of debt	116,838	266,331
Unrestricted	5,170	387,428
Total net assets	$122,008	$653,759

Total net assets of the PCLC decreased by $531,751 or 81%. The decrease in total net assets from fiscal year 2005 is due in part to an increase in personnel benefit costs and a reduction in federal grant revenues. The PCLC saw a decrease in capital assets as the majority of the decrease can be attributed to the continued depreciation of the leasehold improvements.

Statement of Revenues, Expenses, and Changes in Net Assets

The following table represents a condensed summary of the PCLC's activities for the years ended June 30, 2006 and 2005.

PHOENIX COMMUNITY LEARNING CENTER
Management Discussion and Analysis
June 30, 2006
Unaudited

	2006	2005
Revenues:		
Operating revenues:		
State Foundation	$2,174,370	$2,065,994
DPIA	385,123	371,815
Charges for services	12,202	12,691
Other operating revenues	728	10,675
Non-operating revenues:		
Federal grants	313,516	518,557
State grants	2,952	34,242
Total revenues	2,888,891	3,013,974
Expenses:		
Operating expenses:		
Salaries and wages	1,726,051	1,769,324
Fringe benefits	573,929	442,604
Purchased services:		
Professional and technical services	215,143	120,196
Property services	337,582	334,088
Communications	46,446	26,790
Utilities	58,248	40,645
Food services	89,079	87,463
Other	46,186	22,387
Materials and supplies	129,037	256,420
Depreciation	165,149	180,972
Other expenses	33,792	58,772
Total expenses	3,420,642	3,339,661
Change in net assets	(531,751)	(325,687)
Ending Net Assets	$122,008	$653,759

Revenues decreased due to federal grant allocations being less than the prior year. In total, expenses only increased by 2% which is primarily related to additional health insurance cost increases.

Capital Assets

At June 30, 2006, the PCLC had $116,838 invested in a broad range of capital assets, including leasehold improvements, furniture, and equipment.

Capital Assets at Year-End (Net of Depreciation)

	2006	2005
Leasehold improvements	$3,703	$140,561
Equipment and furniture	113,135	125,770
Total	$116,838	$266,331

The decrease of $149,493 in net assets invested in capital assets results from recognizing current year depreciation of capital assets ($165,149) which was partially offset by current year capital asset acquisition in the amount of $15,656.

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

Contacting the PCLC

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

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

PHOENIX COMMUNITY LEARNING CENTER
STATEMENT OF NET ASSETS

JUNE 30, 2006

Assets:	
Current assets:	
Cash	$ 363,098
Intergovernmental receivable	13,511
Total current assets	376,609
Noncurrent assets:	
Security deposit	15,000
Capital assets, net depreciation	116,838
Total noncurrent assets	131,838
Total Assets	508,447
Liabilities:	
Current liabilities	
Accounts payable	35,912
Accrued wages and benefits	309,193
Intergovernmental payable	41,334
Total current liabilities	386,439
Net Assets:	
Invested in capital assets, net of related debt	116,838
Unrestricted	5,170
Total net assets	$ 122,008

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, 2006

Operating Revenues:		
State foundation	$	2,174,370
DPIA		385,123
Charges for services		12,202
Other operating revenues		728
Total operating revenues		2,572,423
Operating Expenses:		
Salaries and wages		1,726,051
Fringe benefits		573,929
Purchased Services:		
Professional and tehnical services		215,143
Property services		337,582
Communications		46,446
Utilities		58,248
Food services		89,079
Other		46,186
Materials and supplies		129,037
Depreciation		165,149
Other expenses		33,792
Total operating expenses		3,420,642
Operating Loss		(848,219)
Nonoperating revenues:		
Federal grants		313,516
State grants		2,952
Total nonoperating revenues		316,468
Change in net assets		(531,751)
Net assets, beginning of year		653,759
Net assets, end of year	$	122,008

See accompanying notes to the basic financial statements

PHOENIX COMMUNITY LEARNING CENTER
Statement of Cash Flows

Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	$ 2,174,370
Cash received from State of Ohio - DPIA	385,123
Cash received from customers	12,202
Cash received from other operating revenues	24,042
Cash payments for personal services	(2,298,964)
Cash payments for contract services	(776,921)
Cash payments for supplies and materials	(155,206)
Cash payments for other expenses	(34,112)
Net cash used by operating activities	(669,466)
Cash flows from noncapital financing activities:	
Cash received from state and federal grants	329,470
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(15,656)
Net change in cash and cash equivalents	(355,652)
Cash and Cash Equivalents at beginning of year	718,750
Cash and Cash Equivalents at end of year	363,098

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

Operating loss	(848,219)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	165,149
Change in assets and liabilities:	
Accounts payable	18,158
Accrued wages and benefits	(9,797)
Intergovernmental payable	5,243
Net cash used by operating activities	$ (669,466)

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 Thomas B. Fordham Foundation (Sponsor) for a period of five years commencing June 27, 2005. 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 five (5) 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 396 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 a Board member.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. BASIS OF PRESENTATION

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

C. BUDGETARY PROCESS

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

D. CASH

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. CAPITAL ASSETS AND DEPRECIATION

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

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the capital assets. Improvements to the leased building are depreciated over the remaining life of the lease. The PCLC does not possess any infrastructure.

F. INTERGOVERNMENTAL REVENUES

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

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

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

G. ESTIMATES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. SECURITY DEPOSIT

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

I. NET ASSETS

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

3. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the PCLC's deposits may not be returned to it. The PCLC's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pooled collateral. At June 30, 2006, the PCLC had a carrying value of $363,098. The bank balance was $434,717, of which $100,000 was covered through the Federal Depository Insurance Corporation (FDIC). The remaining $334,717 was covered under a pooled collateral agreement.

At June 30, 2006 the Center did not fully reconcile its accounts with the bank resulting in the variance between the financial statement ending balances and the carrying amount of deposits and investments presented. Errors in posting activity to the books and in the reconciliations resulted in an unreconciled bank balance that is greater than an unreconciled book balance by $9,047.

4. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables at June 30, 2006, consisted of intergovernmental grants. All intergovernmental receivables are considered collectible in full given the stable condition of State programs and the current fiscal year guarantee of federal funds. The principle items of intergovernmental receivables as of June 30, 2006 are as follows:

Intergovernmental Receivable	Amount
School lunch program	$12,058
Improving Teacher Quality	1,453
Total	$13,511

5. CAPITAL ASSETS

A summary of the capital assets as of June 30, 2006 is as follows:

	Balance 7/1/05	Additions	Disposals	Balance 6/30/06
Leasehold improvements	$684,289	$0	$0	$684,289
Equipment and furniture	282,592	15,656	0	298,248
Totals at historical cost	966,881	15,656	0	982,537
Less accumulated depreciation:				
Leasehold improvements	543,728	136,858	0	680,586
Equipment and furniture	156,822	28,291	0	185,113
Total accumulated depreciation	700,550	165,149	0	865,699
Capital assets, net	$266,331	($149,493)	$0	$116,838

6. RISK MANAGEMENT

A. Property Liability

The PCLC is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural diasters. For fiscal year 2006, the PCLC contracted with Market Finders Insurance Company for property and general liability insurance. The policy's general aggregate, personal and advertising injury, and each occurrence limit is $1,000,000 with a $250 deductible. There has been no reduction in coverage from the prior year and settled claims have not exceeded PCLC's coverage in any of the past three years.

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the PCLC is required to contribute at an actuarially determined rate. The current PCLC rate is 14% of annual covered payroll. A portion of the PCLC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.57 of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The PCLC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were approximately $53,503 $59,761, and $40,000, respectively; 57% has been contributed for 2006 and 100% has been contributed for 2005 and 2004 fiscal years.

B. State Teachers Retirement System

The PCLC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 1.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

7. DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired ton December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10.0% of their annual covered salaries. The PCLC was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The PCLC's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004, were approximately $118,109, $108,487, and $128,000, respectively; 86% has been contributed for 2006 and 100% has been contributed for 2005 and 2004 fiscal years.

8. POSTEMPLOYMENT BENEFITS

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

8. POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribute rate, currently 14% of covered payroll. For the year ended June 30, 2006, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the PCLC, this amount was approximately $12,238 during fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $228.6 million and STRS Ohio had 119,184 eligible benefit recipients.

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For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. After the allocation for basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at $35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year approximately $18,956.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $228.6 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 57,868 participants eligible to receive health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Employee Medical and Dental Benefits

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

10. OPERATING LEASE

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

11. CONTINGENCIES

A. Grants

The PCLC received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the PCLC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the PCLC at June 30, 2006.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2006, as a result of such review.

12. BOARD MEMBERS

Board members receive a $100 stipend per meeting effective September 2005. Mr. Caleb Brown, vice-chairman of the PCLC board, is also the PCLC's attorney. Mr. Anthony Robinson, PCLC board member, is employed by Key Bank which is the depository for PCLC.

13. 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 nieces Jevelyn Latham Hubbard as a Literacy Consultant at a rate of $120 per hour and Sherylon Miree a Health Maintenance Coordinator. Jevelyn Latham was paid $9,258 during the fiscal year and Sherylon Miree was paid $30,076 during the fiscal year. The District also employed Dr. Brown's sister, Geraldine Latham, as a consultant and was paid $24,700 during the fiscal year.

14. COMPLIANCE

The Center did not present accurate reconciliations for its bank account to fund balances as required by Ohio Admin. Code Section 117-2-02(A)(D).

The Center did not maintain records for expenditures as required by Ohio Rev. Code Section 149.351.

The Center failed to maintain an accurate CSADM database to reflect an accurate student enrollment.

The Center did not execute purchase orders in accordance with their sponsor contract with the Thomas B. Fordham Foundation.

15. SUBSEQUENT EVENTS

The PCLC purchased property located at 3595 Washington Avenue, Cincinnati, Ohio 45229 on Monday September 29, 2008 for $4,023,184. The building purchase price was $1,500,000 and the remaining $2,523,184 is for renovations. The PCLC obtained a loan from Self-Help Ventures Fund in the amount of $3,623,000 to assist with the purchase of this property.

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

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

To the Board of Directors:

We have audited the financial statements of the Phoenix Community Learning Center, Hamilton County, Ohio (the Center), as of and for the year ended June 30, 2006, and have issued our report thereon dated July 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001, 2006-002, and 2006-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe findings number 2006-001, 2006-002, and 2006-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the Center's management in a separate letter dated July 9, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated July 9, 2009.

We intend this report solely for the information and use of management, the Board of Directors, and the Thomas B. Fordham Foundation. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 9, 2009

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

Noncompliance/Material Weakness

Ohio Admin. Code, Section 117-2-02(A)(D), states all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

The Center did not present accurate reconciliations between the bank account balance to the Center's fund balance per the financial records for the months of October 2005 through June 2006 during the audit period. The June 30, 2006 reconciliation of the bank balance to the Center's financial records included no outstanding check list. Our review noted:

1. The original reconciliation provided for audit did not contain any outstanding checks. A review of July 2006 expenditures indicated there should have been outstanding checks for the June 30, 2006 reconciliations. The Center eventually provided an outstanding checklists totaling $86,125.

2. The June 30, 2006 bank statement contained a $157,000 credit entry dated 06/30 however, the Center did not provide any explanation for this on their June 30, 2006 reconciliation. Documentation from the bank provided in June of 2009 disclosed the credit entry was posted by the bank to correct a bank error in the debiting of a check to the Center's account in June 2006;

3. The reconciled bank balance was more than the Center's book balance per the financial records by $9,047. The Center had no support for this difference.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been properly posted to the bank; and that all transactions with the bank have been recorded to their records. Failure to post all transactions and to reconcile the book balance to the bank balance on a regular basis increases the risk of unauthorized or inaccurate transactions, undetected errors, and loss or misappropriation of funds occurring without timely detection.

Failure to accurately prepare and reconcile the accounting records reduces the accountability over Center funds and reduces the Board's ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected, and increases the likelihood that the Center's financial statements will be misstated.

We recommend that the Treasurer perform reconciliations between the bank balance and computer generated general ledger balance monthly. The reconciled checking and payroll account balance (bank balance, less outstanding checks, plus deposits in transit) plus each investment balance should equal the total fund balance. All reconciling variances should be investigated and corrected. We also recommend that a board member review and sign off on the reconciliation monthly thereby indicating approval and assist in the timeliness of reconciliations.

FINDING NUMBER 2006-001
(Continued)

Officials' Response:

The School's bank reconciliations are now provided in the monthly Board Financial Reports. The monthly Board Financial Reports are reviewed and approved by the Phoenix Community Learning Center Board each month.

FINDING NUMBER 2006-002

Noncompliance/Material Weakness

Ohio Rev. Code, Section 149.351, states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code.

- The Center could not locate a copy of the insurance policy for our audit period. The auditors were able to document the payment for the insurance policy.
- The Center was unable to locate supporting documentation for purchase order number 4693 paid with check number 4231 to Walmart for a Lexmark scanner. The auditors were able to trace the check to the bank statement to confirm it cleared the bank and verified the Center has possession of the scanner.
- Testing indicated all Federal Income Taxes (FIT) were paid, per 941 Forms. However, no documentation was provided to show FIT owed in the fourth quarter which equaled the difference between an overpayment from September 30, 2005 and the amount due for the fourth quarter FIT. The payroll clerk at K.I.D.S. was unable to produce documentation verifying the payout. Alternative audit procedures were performed to determine the reasonableness of this payment.
- Student Attendance sheets were not maintained for the entire year. The auditors received the attendance sheet for the month of January 2006 only. Additional procedures were performed to determine student attendance.
- No report cards were presented for the school year.
- Student files were incomplete. Some files did not contain withdrawal information.
- No employee contract for Derrick Shipman was provided.
- Staff daily sign in sheets were not provided. We traced hours worked to employee contracts.

The failure to maintain complete records and files, and adequate support for expenditures and activities related to the operations of the Center could result in a loss of accountability over the Center's finances, and make it difficult to identify errors which could go undetected. We recommend the Center maintain all records as required by law.

Officials' Response:

The School has procedures in place to ensure the maintenance of complete records and files related to the operation of the School as required by law.

FINDING NUMBER 2006-003

Noncompliance

The Center's contract with the Thomas B. Fordham Foundation, Exhibit II – Financial Plan – Policies, Procedures and Internal Controls, specifies purchases are authorized after a purchase order is submitted and signed by the superintendent.

While the Center did execute purchase orders for all of the expenditures tested, 20 out of 35 purchase orders tested (57%) were issued and signed after the commitment of funds or actual purchases.

Failure to execute and approve purchase orders prior to making commitments or expenditures could result in improper or unnecessary expenditures and overspending which could lead to negative fund balances.

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

Officials' Response:

The Superintendent and Treasurer will add additional controls to ensure an approved "Purchase Order" is in place for all purchases. (Note: This auditor recommendation wasn't provided to the School until after the close of the 2008-2009 school year.)

FINDING NUMBER 2006-004

Noncompliance/Material Weakness

Ohio Rev. Code, Section 3314.03(A)(6)(b), requires that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student without a legitimate excuse fails to participate in 105 consecutive hours of the learning opportunities offered to the student. In the 2005-2006 school year, the Center provided 6.5 hours of instruction per day and therefore a student could not have more than 18 consecutive non-excused absences days before being withdrawn. In our review of attendance records, we identified 4 instances when a student had 18 consecutive non-excused absences and the student was not withdrawn.

School management is responsible for accurately entering and maintaining student information in the Ohio Department of Education (ODE) CSADM database. The student files maintained by the School should substantiate the date a student withdrawals from the school. When a student withdrawals from the School the student file should be updated with a withdrawal form to support the withdrawal date. Due to the results of testing of the students not being withdrawn, additional procedures were performed over student attendance and the following exceptions were noted:

- Four students missed 18 consecutive school days, which required mandatory withdrawal but these students were not withdrawn from the school.

- 20 students selected for testing from the student roster (SIS-R101) had no class schedules. Of those 20, six were withdrawn but were listed on the lunchroom roster, which was used for attendance purposes. One student was withdrawn but was marked present on the lunchroom roster. Furthermore, nine of the twenty selected were not on the EMIS Statewide Student Identifier report and three students were not on the CSEMISID report.

- Two of 377 students were on the Student Average Daily Membership (ADM) and Average Daily Attendance report for Absences (ADA) but were not on the student roster (SIS-R101). 58 of these students had a different grade level than on the student roster.

FINDING NUMBER 2006-004
(Continued)

- 44 of 491 students on the Student Attendance Summary Report (STU_ATTEND) were not on the student roster but all traced to the current year withdrawal report.

- 203 of the 577 students on the student roster did not have a class schedule. 131 of the 577 students on the student roster were not on the Student Attendance Summary Report (STU_ATTEND). 205 of the 577 students on the student roster were not on the Student Average Daily Membership (ADM) and Average Daily Attendance report for Absences (ADA). Also, there were numerous errors noted in which the grade level on the student roster did not agree to the above mentioned reports.

- 229 of the 397 students on the January 2006 attendance sheets, did not agree to the lunchroom roster.

- Student Attendance sheets were not maintained for the entire year. The AOS compared the student lunch rosters, January 2006 attendance sheets, Student ADM and ADA reports, and the foundation payment reports from the Center to verify the daily count. We were unable to confirm daily counts from any of the listed reports.

- No report cards were presented for the school year.

- Student files were incomplete. Some files did not contain withdrawal information

Failure to accurately update the CSADM database to reflect actual students enrolled and in attendance at the Center could lead to funding overpayment from the Ohio Department of Education. We recommend the Center establish control procedures to monitor and update the CSADM database to accurately reflect all students enrolled and in attendance at the Center. Also, failure to properly identify correct grade levels and attendance records could lead to incorrect reporting of student grades and attendance for grade level advancement. We recommend the Center establish control procedures to ensure all student files and attendance records accurately reflect the student grades, attendance, and withdrawal/enrollment information and to identify consecutive non-excused absences and withdraw those students in accordance with the above statute.

This matter will be referred to the Ohio Department of Education.

Officials' Response:

The School will establish "additional" control procedures to monitor and update the CSADM/SOES database during the 2009-2010 school year. (Note: This auditor recommendation wasn't provided to the School until after the close of the 2008-2009 school year.)

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; **Explain**
2005-001	No supervisory review of payroll.	Yes	
2005-002	Purchase orders not approved	No	Repeat as Finding 2006-003
2005-003	Federal questioned costs	Yes	

PHOENIX COMMUNITY LEARNING CENTER

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 29, 2009

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