



**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

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STATE OF OHIO  
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## REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education  
High Life Youth Community School  
Franklin County  
3280 Morse Road  
Columbus, Ohio 43231

We have audited the Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance of High Life Youth Community School, Franklin County, Ohio, (the School) for the period July 1, 2000 through December 31, 2000 and the year July 1, 1999 through June 30, 2000. This financial statement is the responsibility of the School's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards 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.

We were unable to determine the effects of any fines, penalties, and interest charges related to the liabilities described in Notes 6 and 9. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on any fines, penalties, and interest charges related to those liabilities.

We were unable to obtain sufficient, competent evidence to support the liabilities presented in Note 16 to the financial statements. The amounts disclosed as payable are estimates. We could not determine the completeness of this disclosure. Additional liabilities are likely to exist. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on those liabilities.

Ohio Administrative Code Section 117-2-03 requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. As discussed in Note 2, the School prepares its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit certain assets, liabilities, and fund equities.

In our opinion, except for the effects of such adjustments to Notes 6, 9, and 16, if any, as might have been determined to be necessary had we been able to determine the completeness of those liabilities or the fines, penalties, and interest charges, the financial statements referred to above present fairly, in all material respects, the cash balance of the School as of December 31, 2000 and June 30, 2000, and its cash receipts and disbursements for the period July 1, 2000 through December 31, 2000 and the year July 1, 1999 through June 30, 2000 and on the basis of accounting described in Note 2.

As discussed in Note 20 to the financial statements, the School suspended operations on November 22, 2000.

As further discussed in Note 21 to the financial statements, the School adopted a resolution to close and rescind their contract with the Ohio Department of Education on April 30, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2001 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.

This report is intended solely for the information and use of management, the Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

**JIM PETRO**  
Auditor of State

March 30, 2001  
(except for Note 21, as to  
which the date is April 30, 2001)

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH BALANCE**

	<u>JULY 1, 2000 THROUGH DECEMBER 31, 2000</u>	<u>JULY 1, 1999 THROUGH JUNE 30, 2000</u>
<b><u>Operating Cash Receipts</u></b>		
Foundation Payments	\$562,707	\$1,042,580
Food Service	916	295
Miscellaneous	<u>817</u>	<u>1,242</u>
Total Operating Cash Receipts	<u>564,440</u>	<u>1,044,117</u>
<b><u>Operating Cash Disbursements</u></b>		
Instruction		
Regular Instruction	223,453	382,110
Other Instruction	-	561
Support Services		
Pupils	26,852	36,277
Instructional Staff	12,970	27,535
Administration	200,415	652,461
Fiscal Services	31,893	22,419
General	17,443	2,150
Operational and Maintenance - Plant	23,107	51,347
Transportation	935	4,572
Purchased Services	22,384	40,251
Capital Outlay	69,947	117,837
Debt Service	<u>137,650</u>	<u>64,117</u>
Total Operating Cash Disbursements	<u>767,049</u>	<u>1,401,637</u>
Operating Loss	<u>(202,609)</u>	<u>(357,520)</u>
<b><u>Non-Operating Cash Receipts/(Disbursements)</u></b>		
Proceeds of Loans	134,395	264,167
State Grants	13,775	32,800
Federal Grants	50,000	50,000
Federal Grants - Food Service	<u>4,635</u>	<u>7,242</u>
Total Non-Operating Cash Receipts/(Disbursements)	202,805	354,209
<b>Excess Receipts Over/(Under) Disbursements</b>	196	(3,311)
Cash Balance at Beginning of Year	<u>(136)</u>	<u>3,175</u>
<b>Cash Balance at End of Year</b>	<u><u>\$60</u></u>	<u><u>(\$136)</u></u>

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

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**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

High Life Youth Community School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades 7 through 12. 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 was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 1999. 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 School operates under the direction of a seven-member Board of Trustees. The Board 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 Trustees controls the school's one instructional/support facility staffed by 19 noncertified and 22 certificated full time teaching personnel who provide services to 167 students.

The School contracts with By His Word, Inc. for a variety of services including management consulting, management and evaluation of the fiscal budget, administrative and staff payroll, equipment inventory, inputting/updating information into the EMIS system for Financial/Staff/Students, student grade recording, attendance, scheduling, demographics, printing services, and staff development.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis Of Presentation**

Although required by Ohio Administrative Code Section 117-2-03 to prepare its annual financial report in accordance with generally accepted accounting principles, the School chose to prepare its financial statements on a basis of accounting that is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of matters.

**B. 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 the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Fixed Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The majority of the capital outlay expenditures reflected in the financial statements related to building improvements for the school facilities that were leased. This lease was terminated in December of 2000. These items are not reflected as assets on the accompanying financial statements.

**D. Intergovernmental Revenues**

The School participates in the State Foundation Program. The School also participated in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$50,000 to offset start-up costs of the School prior to the year ended June 30, 2000, \$50,000 during the year ended June 30, 2000, and \$50,000 during the period July 1, 2000 through December 31, 2000. This money can be used for certain expenses as described in the grant agreement. The School expended the money on consulting, capital improvements, capital equipment, and various supplies and materials.

**3. DEPOSITS AND INVESTMENTS**

At December 31, 2000, the School had a cash balance of \$60. The bank balance was \$260. At June 30, 2000, the School had a cash deficit of \$136. The bank balance was \$9,156. The total bank balance was federally insured up to \$100,000.

**4. FACTORING AGREEMENT**

The School entered into a factoring agreement with Capital-Plus, Inc. on January 11, 2000 for the factoring of School Foundation receipts. The advance limit under this agreement was \$150,000 with a 75% advance percentage. The factoring commission under this agreement was 1% of the purchase price. The discount for advances was 3% for the first 35 days and .5% for each 5 day period or part thereof elapsed from the date the advance is made until the account is paid in full.

Under this agreement, the School paid \$27,472 in fees related to this factoring agreement in the period ended December 31, 2000. The School paid \$14,872 in fees related to this factoring agreement in the year ended June 30, 2000.

In October 2000, the School received advances on foundation receipts in the amount of \$44,332. The foundation funds were not subsequently received to repay this advance. As of December 31, 2000, the School owes Capital Plus, Inc. \$39,054 on this advance. This amount does not include any related fines, penalties, and interest.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**5. 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 period ended December 31, 2000 and for the year ended June 30, 2000, the School contracted with Monroe Guaranty Insurance Company for property, electronic data processing equipment and software, automobile, and general liability insurance. The following is a summary of limits and deductibles:

Policy	Coverage Limit	Deductible
Business Personal Property	\$210,000	\$250
Building Additions & Alterations	\$380,000	\$250
Electronic Data Processing		
Equipment	\$200,000	\$250/\$1,000 for mechanical
Software	\$25,000	
Extra Expenses	\$10,000	
General Liability	\$1,000,000 single occurrence \$2,000,000 annual aggregate	No deductible
Commercial Automobile	\$1,000,000 single occurrence \$5,000 medical	\$250

**B. Workers' Compensation**

The School is required to pay the State Worker's 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. The School did not remit payments to the Bureau of Workers' Compensation for the period ended December 31, 2000 or the year ended June 30, 2000. The approximate unpaid portion, including claims that have been filed, is \$84,300. This amount does not include any related fines, penalties, and interest.

**6. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School is required to contribute to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for year 2000, 7.7 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contributions for pension obligations to SERS for the period ended December 31, 2000 and the year ended June 30, 2000 was \$102,391. The unpaid contribution is \$99,492. The School is still responsible for these contributions and any related fines, penalties, and interest.

In addition, the School did not contribute amounts withheld from employees' gross wages for retirement. The required contributions from plan members for the period ended December 31, 2000 and the year ended June 30, 2000 was \$63,149. The unpaid portion of the amounts withheld from employees' gross wages for retirement contributions is \$53,332. This amount does not include any related fines, penalties, and interest.

**B. State Teachers Retirement System**

The School is required to contribute to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 6 percent; 12 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the period ended December 31, 2000 and the year ended June 30, 2000 was \$88,816. The unpaid contribution is \$88,816. The School is still responsible for these contributions and any related fines, penalties, and interest.

In addition, the School did not contribute amounts withheld from employees' gross wages for retirement. The required contributions from plan members for the period ended December 31, 2000 and the year ended June 30, 2000 was \$57,643. The unpaid portion of the amounts withheld from employees' gross wages for retirement contributions is \$47,618. This amount does not include any related fines, penalties, and interest.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS**

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

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. The School did not remit the required contributions. The amounts owed are include in Note 6.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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. For the period ended December 31, 2000 and the year ended June 30, 2000, employer contributions to fund health care benefits were 6.3 percent of covered payroll. The School did not remit the required contributions. The amounts owed are included in Note 6.

**8. EMPLOYEE BENEFITS**

The School has contracted with private carriers to provide employee medical/surgical, dental, and life benefits.

**9. PAYROLL LIABILITY**

The School did not remit all payroll withholdings for federal income tax, state income tax, city income tax, and medicare. The School also did not remit the employer share of medicare taxes. The following is a summary of the amounts withheld, but not remitted as of December 31, 2000:

Type of Withholding	Total Withheld	Amount Remitted	Amount Owed
Federal Income Tax	\$129,518	(\$23,693)	\$105,825
State of Ohio Income Tax	43,021	(5,031)	37,990
City of Columbus Income Tax	27,045	(4,770)	22,275
City of Gahanna Income Tax	163	(64)	99
Employer Medicare Tax	N/A	N/A	19,493
Employee Medicare Tax	19,493	(3,704)	15,789
Total	<u>\$219,240</u>	<u>(\$37,262)</u>	<u>\$201,471</u>

These amounts do not include any related fines, penalties, and interest.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**10. WAGES PAYABLE**

The School suspended operations on November 22, 2000. They were unable to pay wages for the pay period ended November 15, 2000 or the wages earned during the week of November 18, 2000. The gross pay for these wages earned is approximately \$85,000.

**11. ACCOUNTS PAYABLE**

As of December 31, 2000, the School owed approximately \$205,000 to vendors for goods and services provided to the school during the period of July 1, 2000 through December 31, 2000 and the year of July 1, 1999 through June 30, 2000.

**12. LOANS PAYABLE**

The School borrowed funds for operations during the period ended December 31, 2000 and the year ended June 30, 2000 from its management company, By His Word, Inc. The following is a summary of that activity:

	Beginning Balance	Loans Received	Payments Made	Ending Balance
Period ended December 31, 2000	\$262,109	\$134,395	(\$137,650)	\$258,854
Year ended June 30, 2000	\$62,059	\$264,167	(\$64,117)	\$262,109

There are no written loan agreements and the loans appear to be uncollateralized. The loans have no due date.

During the period of July 1, 2000 through December 31, 2000 and the year of July 1, 1999 through June 30, 2000, the School paid no interest on these loans.

**13. CAPITAL LEASES**

The School entered into capital leases for computers, software, printers, copiers, a fax machine, and a telephone system in 1999. The School did not make the monthly payments required by these lease agreements. The equipment was returned to the lessor. An estimate of the amount owed is included in Judgements Payable Note 16.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**14. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the period ended December 31, 2000, the School received \$562,707 of school foundation support. During the year ended June 30, 2000, the School received \$1,042,580 of school foundation support. Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of March 30, 2001, the Ohio Supreme Court has not rendered an opinion on this issue.

The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional. As of the date of these financial statements, the School is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**15. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School.

**B. Litigation**

The School is currently a defendant in several lawsuits dealing with payment for goods/services. An estimate of the amount owed is included in Judgements Payable in Note 16.

**C. School Foundation Program**

The School received funds from the Ohio Department of Education as part of the School Foundation Program. The foundation revenue amount is based on actual student enrollment and it is paid based on full-time equivalent. The School overestimated the number of students at the beginning of the fiscal period. In July of 2000, the School estimated enrollment of 350 students. The actual enrollment in September of 2000 was 167 students. The School suspended operations on November 22, 2000. These two issues, overestimating the number of students and suspending operations, resulted in an overpayment of school foundation funds. The Ohio Department of Education estimates this overpayment to be approximately \$340,000.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**16. SUMMARY OF LIABILITIES AS OF DECEMBER 31, 2000**

Type of Liability	Amount Owed
Factoring Agreement Liability (See Note 4)	\$39,054
Ohio Bureau of Workers' Compensation (See Note 5 B)	84,300
Retirement Liability (See Note 6)	289,258
Payroll Liability (See Note 9)	201,471
Wages Payable (See Note 10)	85,000
Accounts Payable (See Note 11)	205,000
Loans Payable (See Note 12)	258,854
Judgements Payable (See Note 15 B)	207,293
School Foundation (See Note 15 C)	340,000
Liability for Management Consulting Contract (See Note 18)	90,829
Total	<u><u>\$1,801,059</u></u>

These amounts do not include any related fines, penalties, and interest.

**17. TAX EXEMPT STATUS**

The School completed their application and filed for tax exempt status under 501(c)(3) of the Internal Revenue Code on March 22, 2000. The School received its approval of tax exempt status on August 21, 2000.

**18. MANAGEMENT CONSULTING CONTRACT**

On January 4, 1999, the School entered into a five-year contract commencing on July 1, 1999 with By His Word, Inc. for management consulting services. Under the contract, By His word is required to provide the following services:

- Management and evaluation of the fiscal budget;
- Preparing and distributing administrative and staff payroll;
- Equipment inventory;
- inputting/updating information into EMIS for financial/staff/students;
- Student grade and attendance recording;
- Scheduling;
- Demographics;
- Printing services; and
- Staff development

For these services, the School is required to pay By His Word, Inc. the annual sum of \$330,288 in twelve equal installments per year beginning July 1, 1999, plus 10% of the annual surplus of the School. The contract included a 10% increase in the base fee each year.



**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000  
AND THE YEAR JULY 1, 1999 THROUGH JUNE 30, 2000  
(Continued)**

**18. MANAGEMENT CONSULTING CONTRACT (Continued)**

During the period July 1, 2000 through December 31, 2000, the School paid continuing fees totaling \$90,828. During year 2000, the School paid fees totaling \$330,288.

At December 31, 2000, the School owed By His Word, Inc. \$90,829 for management consulting services provided during the months of October, November, and December of 2000.

**19. RELATED PARTY TRANSACTIONS**

The School had several transactions with related parties throughout the period ended December 31, 2000 and the year ended June 30, 2000. Transactions with the Development Board Members included the management consulting contract with By His Word, Inc. described in Note 18. Transactions with immediate family members of the Board consisted of payments for consulting and contractual services. These transactions aggregated \$6,525 during the period ended December 31, 2000 and the year ended June 30, 2000. At December 31, 2000, the School owed these related parties \$250. This liability is included in Note 11.

**20. SUSPENSION OF OPERATIONS**

On November 22, 2000, the School suspended operations because of financial difficulty. The School had limited financial activity through December 31, 2000.

**21. SUBSEQUENT EVENT - CLOSING OF THE SCHOOL**

On April 30, 2001, the Board of Education adopted a resolution to close the School and rescind the contract with the Ohio Department of Education.

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STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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

Board of Education  
High Life Youth Community School  
Franklin County  
3280 Morse Road  
Columbus, Ohio 43231

We have audited the financial statements of High Life Community School, Franklin County, Ohio (the School), for the period July 1, 2000 through December 31, 2000 and the year ended June 30, 2000, and have issued our report thereon dated March 30, 2001, (except for Note 21, as to which the date was April 30, 2001) wherein we disclosed the scope of our work was not sufficient to enable us to express an opinion on the completeness or accuracy of certain liabilities disclosed in the notes to the financial statements and any fines, penalties, and interest charges related to these liabilities. The School suspended operations on November 22, 2000 and closed on April 30, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-10625-001 through 2000-10625-010.

**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 financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2000-10625-010 through 2000-10625-016.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described in the accompanying schedule of findings as items 2000-10625-011 through 2000-10625-013 are material weaknesses.

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

**JIM PETRO**  
Auditor of State

March 30, 2001  
(except for Note 21, as to  
which the date is April 30, 2001)

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED DECEMBER 31, 2000  
AND THE YEAR ENDED JUNE 30, 2000**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**Findings for Recovery**

**FINDING NUMBER 2000-10625-001**

The School did not remit \$105,825 of federal income taxes withheld from wages earned by employees to the Internal Revenue Service. 26 USC 3402 (a) states that in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of one hundred five thousand eight hundred twenty-five dollars (\$105,825), plus penalties and interest, in favor of the Internal Revenue Service.

**FINDING NUMBER 2000-10625-002**

The School did not remit \$37,990 of state income taxes withheld from wages earned by employees to the State of Ohio. Ohio Rev. Code section 5747.06 states that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748. of the Revised Code with respect to the amount of such compensation included in his adjusted gross income during the calendar year. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of thirty-seven thousand nine hundred ninety dollars (\$37,990), plus penalties and interest, in favor of the State of Ohio.

**FINDING NUMBER 2000-10625-003**

The School did not remit \$15,789 of Medicare taxes withheld from wages earned by employees to Medicare. The School also did not remit the employer share of Medicare taxes, \$19,493, to Medicare. 26 USC 3102 (a) states that the tax imposed by section 3101 shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid. 26 USC 3111 (a) states that in addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the percentages of the wages (as defined in section 3121(a)) paid by him with respect to employment.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED DECEMBER 31, 2000  
AND THE YEAR ENDED JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Findings for Recovery (Continued)**

**FINDING NUMBER 2000-10625-003 (Continued)**

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of thirty-five thousand two hundred eighty-two dollars (\$35,282), plus penalties and interest, in favor of the United States Treasury.

**FINDING NUMBER 2000-10625-004**

The School did not remit \$22,275 of local income taxes withheld on wages earned by employees to the City of Columbus. Columbus, Ohio, Income Tax Code Section 361.24 (a) states that each employer within or doing business within the City, shall deduct at the time of payment of such salaries, wages, commissions or other compensation as defined in Section 361.16 of this Chapter, the tax of two (2) percent of the gross salaries, wages, commissions or other compensation due by the said employer to said employee and shall, on or before the last day of the month following the close of each calendar quarter, make a return showing the amount of taxes so deducted and a record of payments showing that all taxes deducted during the quarter have been paid to the City in accordance with the payment schedule prescribed by subsection.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of twenty-two thousand two hundred seventy-five dollars (\$22,275), plus penalties and interest, in favor of the City of Columbus, Ohio.

**FINDING NUMBER 2000-10625-005**

The School did not remit \$47,618 in State Teachers Retirement System (STRS) contributions withheld from wages earned by employees to STRS. Ohio Revised Code Section 3307.26 states that the contribution for all teachers shall be deducted by the employer on each payroll in an amount equal to the applicable per cent of the teachers' paid compensation for such payroll period or other period as the board may approve. All contributions on earned compensation for teachers participating in plans established under section 3307.81 of the Revised Code shall be remitted at intervals required by the state teachers retirement system under section 3307.86 of the Revised Code. All contributions on earned compensation for teachers participating in the plan described in sections 3307.50 to 3307.79 of the Revised Code shall be remitted to the state teachers retirement system by the thirtieth day of June of each year.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of forty-seven thousand six hundred eighteen dollars (\$47,618), plus penalties and interest, in favor of the State Teachers Retirement System.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED DECEMBER 31, 2000  
AND THE YEAR ENDED JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Findings for Recovery (Continued)**

**FINDING NUMBER 2000-10625-006**

The School did not remit \$88,816 in State Teachers Retirement System (STRS) employer contributions on wages earned by employees to STRS. Ohio Rev. Code Section 3307.28 states that each employer shall pay annually to the state teachers retirement system an amount certified by the secretary which shall be a certain percent of the earnable compensation of all members, and which shall be known as the "employer contribution."

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public property that has been converted or misappropriated is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of eighty-eight thousand eight hundred sixteen dollars (\$88,816), plus penalties and interest, in favor of the State Teachers Retirement System.

**FINDING NUMBER 2000-10625-007**

The School did not remit \$53,332 in School Employees Retirement System (SERS) contributions withheld from wages earned by employees to SERS. Ohio Rev. Code Section 3309.47 states that each school employees retirement system contributor shall contribute eight per cent of his compensation to the employees' savings fund. The contributions by the direction of the school employees retirement board shall be deducted by the employer from the compensation of each contributor on each payroll of such contributor for each payroll period and shall be an amount equal to the required per cent of such contributor's compensation. Each contributor shall pay with the first payment to the employees' savings fund each year a sum to be determined by the board, as provided by law, which amount shall be credited to the expense fund.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of fifty-three thousand three hundred thirty-two dollars (\$53,332), plus penalties and interest, in favor of the School Employees Retirement System.

**FINDING NUMBER 2000-10625-008**

The School did not remit \$99,492 in School Employees Retirement System (SERS) employer contributions on wages earned by employees to SERS. Ohio Rev. Code Section 3309.49 states that each employer shall pay annually to the employers' trust fund an amount certified by the secretary that shall be a certain per cent of the earnable compensation of all employees, and shall be known as the "employer contribution." The rate per cent of such contribution shall be fixed by the actuary on the basis of his evaluation of the liabilities of the school employees retirement system, but shall not exceed fourteen per cent, and shall be approved by the school employees retirement board.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED DECEMBER 31, 2000  
AND THE YEAR ENDED JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Findings for Recovery (Continued)**

**FINDING NUMBER 2000-10625-008 (Continued)**

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public property that has been converted or misappropriated is hereby issued against John Hazelwood, the estate of Steve Crockett, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of ninety-nine thousand four hundred ninety-two dollars (\$99,492), plus penalties and interest, in favor of the School Employees Retirement System.

**Material Noncompliance**

**FINDING NUMBER 2000-10625-009**

Ohio Rev. Code § 4123.38 provides that every employer mentioned in division (B)(1) of section 4123.01 of the Revised Code, which includes school districts, shall contribute to the public insurance fund the amount of money determined by the administrator of workers' compensation, and the manner of determining contributions and the classifications of employers is as provided in sections 4123.39 to 4123.41 and 4123.48 of the Revised Code.

The School did not remit workers' compensation premiums as provided under Ohio Rev. Code § 4123.38 for the period ended December 31, 2000 or the fiscal year ended June 30, 2000.

**FINDING NUMBER 2000-10625-010**

Ohio Rev. Code § 122.22 requires Schools to take all official actions and to conduct all deliberations upon official business in open meetings, unless the subject matter is specifically exempted by law. It further outlines that Schools must establish a reasonable method by which any person can determine the time and place of all regular meetings, and it requires the minutes of the meetings or special meetings be promptly prepared, filed and approved by the governing authority.

The Board has not taken all official actions, such as granting pay increases, approving pay rates, hiring new employees, and borrowing funds, through the course of open meetings. Also, the records of proceedings were not signed by the Board President and/or Secretary indicating approval.



**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED DECEMBER 31, 2000  
AND THE YEAR ENDED JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Material Weaknesses**

**FINDING NUMBER 2000-10625-011**

**Payroll**

The following control weaknesses were noted in the system for processing payroll:

- Employees were not approved for employment through the Board of Education, nor was the established pay rate for the positions approved.
- No documentation was provided for hourly employees showing hours worked and supervisory approval.
- There was no documentation of attendance for salaried employees during the period.
- No review of the payroll spreadsheets prepared by the Management Company was documented by the Board.
- Adequate records were not maintained indicating leave accruals or leave time taken during the period.
- Failure to pay withholdings when due.

Failure to establish a favorable control environment could result in overpayments or unauthorized payments.

**FINDING NUMBER 2000-10625-012**

**Purchasing Cycle**

The following control weaknesses were noted in the purchasing process control environment:

- There was no prior authorization of purchases by the Director.
- Invoices, copy of the checks, and any other pertinent information were not filed together.
- The checks were not always signed by two authorized signatories.
- The invoice was not initialed by the receiver before payment of the invoice.
- No review process is in place by management that the expenditure was appropriately posted to the proper account.

The School established policies and procedures relating to purchasing controls, but did not follow their established procedures. These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of school assets.

**FINDING NUMBER 2000-10625-013**

**Debt**

The School has significant loans outstanding with its Management Company, By His Word, Inc. The School did not maintain documentation for this debt including debt agreements, supporting documentation for proceeds or payments, or amortization schedules.

Without adequate documentation of this debt, the School's risk is increased that debt balances and payments may be misstated, debt covenants may be violated, significant debt terms will not be properly disclosed and debt service will not be in accordance with the terms and conditions of the agreements and applicable laws and regulations.

**HIGH LIFE YOUTH COMMUNITY SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED DECEMBER 31, 2000  
AND THE YEAR ENDED JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Reportable Conditions**

**FINDING NUMBER 2000-10625-014**

**Receipts Cycle**

The following control weaknesses were noted in the system for processing receipts:

- Adequate supporting documentation was not maintained for receipts.
- No review of the School's receipts prepared by the Accountant was documented by the Director.

Failure to establish a favorable control environment could result in undetected errors or irregularities.

**FINDING NUMBER 2000-10625-015**

**Monitoring Control System**

An effective monitoring control system has not been implemented to assist management. Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature. Monitoring controls should assist management in detecting material misstatements in financial or other information.

**FINDING NUMBER 2000-10625-016**

**Consulting and Other Contract Agreements**

The School made significant payments to various individuals and companies for consulting and other contract agreements (i.e. construction improvements, accounting services, management consulting, etc.). The School did not enter into a formal agreement with these individuals for specified amounts or specific services. The School did not maintain documentation of the services provided or amounts due.

The lack of entering into an agreement and maintaining the appropriate documentation for consulting and other services could lead to errors in payment and possible disagreements in amounts owed.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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800-282-0370  
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**HIGH LIFE YOUTH COMMUNITY SCHOOL**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 15, 2001**