



**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
High Life Youth Development Center
Franklin County
3280 Morse Road
Columbus, Ohio 43231

We have audited the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balance of High Life Youth Development Center, Franklin County, Ohio, (the School) for the period July 1, 2000 through December 31, 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 paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient, competent evidence to support the completeness of the liabilities presented in Note 16 to the financial statement.

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 statement on a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statement omits certain assets, liabilities, and fund equities.

In our opinion, except for the effects of such adjustment to Note 16, if any, as might have been determined to be necessary had we been able to determine the completeness of those liabilities, the financial statement referred to above presents fairly, in all material respects, the cash balance of the School as of December 31, 2000, and its cash receipts and disbursements for the period July 1, 2000 through December 31, 2000 on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statement, the School suspended operations on December 15, 2000.

As discussed in Note 20 to the financial statement, the School's significant operating losses, suspension of operations, and significant outstanding liabilities raise substantial doubt about its ability to continue as a going concern. Note 20 also describes management's plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 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

May 29, 2001

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH BALANCE
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000**

Operating Cash Receipts

Foundation Payments	\$311,563
Miscellaneous	<u>60</u>
Total Operating Cash Receipts	311,623

Operating Cash Disbursements

Instruction:	
Regular Instruction	106,115
Support Services:	
Pupils	61,605
Instructional Staff	5,299
Administration	331,480
Fiscal Services	2,138
General	16,933
Operational and Maintenance - Plant	29,516
Transportation	6,180
Purchased Services	28,333
Capital Outlay	7,351
Debt Service	<u>736</u>
Total Operating Cash Disbursements	<u>595,686</u>
Operating Loss	<u>(284,063)</u>

Non-Operating Cash Receipts

Proceeds of Loans	91,925
Line of Credit Draws	34,112
State Grants	107,500
Federal Grants	<u>40,000</u>

Total Non-Operating Cash Receipts 273,537

Excess Receipts Over/(Under) Disbursements (10,526)

Cash Balance at Beginning of Period 11,921

Cash Balance at End of Period \$1,395

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

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**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

High Life Youth Development Center (the School) is 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 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, 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a three-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 26 noncertified and 12 certificated full time teaching personnel who provide services to 52 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.

On December 15, 2000, the School suspended operations because of a lack of funds. The School had limited financial activity through December 31, 2000.

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 statement 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 DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fixed Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statement.

D. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenue received from this program is recognized as operating receipts when received. The School also participates 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 period and \$40,000 during the period July 1, 2000 through December 31, 2000. This money can be used for certain expenses as described in the grant agreement. As of December 31, 2000 the School expended the money on salaries and fringe benefits. The School additionally participates in the Alternative Education Challenge Grant Program through their fiscal agent for the grant, Reynoldsburg City Schools. Under this program, the School was awarded \$107,500 prior to the period and \$107,500 during the period July 1, 2000 through December 31, 2000. This money can be used for certain expenses as described in the grant agreement. As of December 31, 2000 the School had expended the money on consulting services.

3. DEPOSITS AND INVESTMENTS

At December 31, 2000, the School had a cash balance of \$1,395 and a bank balance of \$1,395. The total bank balance was insured by the Federal Deposit Insurance Corporation.

4. FACTORING AGREEMENT

The School entered into a factoring agreement with Capital-Plus, Inc. on May 26, 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 \$12,514 in fees related to this factoring agreement for the period July 1, 2000 through December 31, 2000.

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 ending December 31, 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:

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

5. RISK MANAGEMENT (Continued)

Policy	Coverage Limit	Deductible
Business Personal Property	\$210,000	\$250
Building Additions & Alterations	\$280,000	\$250
Electronic Data Processing		
Equipment	\$110,000	\$250/\$1,000 for
Software	\$10,000	mechanical
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	\$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 July 1, 2000 through December 31, 2000. The approximate unpaid portion is \$10,600. This amount does not include any related fines, penalties, and interest.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes 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 DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 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 fiscal year 2000, 5.5 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 of July 1, 2000 through December 31, 2000 was \$36,327. The unpaid contribution is \$36,327. The School also had required contributions for the period of April 1, 2000 through June 30, 2000. The School's required contributions for pension obligations to SERS for the period of April 1, 2000 through June 30, 2000 was \$7,032. The unpaid contribution is \$7,032. The School is still responsible for these contributions and any related penalties and interest.

In addition, the School did not pay to SERS the amounts withheld from employees' gross wages for retirement. The required contributions from plan members for the period of July 1, 2000 through December 31, 2000 was \$23,302. The unpaid amount is \$23,302. The School also did not pay to SERS amounts withheld from employees' gross wages for retirement for wages earned during the period of April 1, 2000 through June 30, 2000. The required contributions from plan members for wages earned in the period of April 1, 2000 through June 30, 2000 was \$4,521. The unpaid amount is \$4,521. This amount does not include any related penalties and interest.

B. State Teachers Retirement System

The School contributes 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 14 percent; 6 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 contribution for pension obligations to STRS for the period of July 1, 2000 through December 31, 2000 was \$10,642. The unpaid contribution is \$10,642. The School is still responsible for these contributions and any related penalties and interest.

In addition, the School did not pay to STRS amounts withheld from employees' gross wages for retirement. The required contributions from plan members for the period of July 1, 2000 through December 31, 2000 was \$7,069. The unpaid amount is \$7,069. This amount does not include any related penalties and interest.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 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.

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 this period, employer contributions to fund health care benefits were 8.5 percent of covered payroll. The School did not remit the required contributions.

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. In addition, the School did not remit amounts withheld for Hamilton County Child Support payments. The following is a summary of the amounts withheld, but not remitted:

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

9. PAYROLL LIABILITY (Continued)

Type of Withholding	Total Withheld	Amount Remitted	Amount Owed
Federal Income Tax	\$32,694	(\$7,084)	\$25,610
State of Ohio Income Tax	10,013	(2,332)	7,681
City of Columbus Income Tax	6,702	(1,438)	5,264
City of Gahanna Income Tax	44	0	44
Employee Medicare Tax	4,881	(1,049)	3,832
Hamilton County Child Support	1,130	(565)	565
Subtotal	<u>\$55,464</u>	<u>(\$12,468)</u>	42,996
Employer Medicare Tax	N/A	N/A	<u>3,832</u>
Total			<u><u>\$46,828</u></u>

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

10. WAGES PAYABLE

The School suspended operations on December 15, 2000. The School did not pay wages for the pay period ended December 15, 2000. The gross pay for these wages earned is approximately \$44,300.

11. ACCOUNTS AND JUDGEMENTS PAYABLE

As of December 31, 2000, the School owed approximately \$77,000 to vendors for goods and services provided to the School during the period of July 1, 2000 through December 31, 2000.

12. LOANS PAYABLE

The School borrowed funds for operations throughout the period 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 of July 1, 2000 through December 31, 2000	\$3,100	\$91,925	\$0	\$95,025

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

During the period of July 1, 2000 through December 31, 2000, the School paid no interest on these loans.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

13. LINE OF CREDIT

The School received funds for operations throughout the period from a line of credit maintained with National City Bank. The line of credit has a credit limit of \$35,000 and an interest rate of 11.5%. The following is a summary of that activity:

	Beginning Balance	Funds Received	Finance Charge s	Payments Made	Ending Balance
Period of July 1, 2000 through December 31, 2000	\$0	\$34,112	\$1,134	\$736	\$34,510

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 \$383,454 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 January 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 statement, 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 likely to be a defendant in several lawsuits dealing with payment for goods/services. An estimate of the amount owed is included in Claims Payable in Note 16.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

15. CONTINGENCIES (Continued)

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 250 students. The actual enrollment in September, October, and November of 2000 was 52, 58, and 66 students, respectively. The School suspended operations on December 15, 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 \$256,780.

D. Legality of Charter Schools

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

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

Type of Liability	Amount Owed
Ohio Bureau of Workers' Compensation (See Note 5 B)	\$10,600
Retirement Liability (See Note 6)	88,893
Payroll Liability (See Note 9)	46,828
Wages Payable (See Note 10)	44,300
Accounts Payable (See Note 11)	77,000
Loans Payable (See Note 12)	95,025
Line of Credit Payable (See Note 13)	34,510
Claims Payable (See Note 15 B)	17,000
School Foundation (See Note 15 C)	256,780
Liability for Management Consulting Contract (See Note 18)	7,783
Total	<u><u>\$654,809</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 July 17, 2000. The School received its approval of tax exempt status on October 2, 2000.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

18. MANAGEMENT CONSULTING CONTRACT

On July 1, 2000, the School entered into a five-year contract commencing on July 1, 2000 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 \$363,317 in twelve equal installments per year beginning July 1, 2000, plus 10% of the annual surplus of the School. The contract included a 10% increase in the base fee each year.

During the period July 1, 2000 through December 31, 2000, the School paid continuing fees totaling \$173,875.

At December 31, 2000, the School owed By His Word, Inc. \$7,783 for management consulting services provided during the month of December 2000.

18. RELATED PARTY TRANSACTIONS

The School's management consulting contract with By His Word, Inc. is considered a related party transaction. By His Word, Inc. is operated by one of the Board members.

19. GOING CONCERN

The School's significant operating losses, suspension of operations, and significant outstanding liabilities raise substantial doubt about its ability to continue as a going concern. The school obtained significant financing (notes 12 and 13) from private sources through December 31, 2000. The Board of Education decided to suspend the operations on December 15, 2000 until additional funding could be obtained. As of May 29, 2001, the School has not found additional sources of funding to pay the outstanding liabilities or to restart operations.

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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 Development Center
Franklin County
3280 Morse Road
Columbus, Ohio 43231

We have audited the financial statement of High Life Youth Development Center, Franklin County, Ohio (the School), for the period July 1, 2000 through December 31, 2000, and have issued our report thereon dated May 29, 2001, wherein we expressed substantial doubt about the School's ability to continue as a going concern and disclosed that the scope of our work was not sufficient to enable us to express an opinion on the completeness of certain liabilities disclosed in the notes to the financial statement. The School suspended operations on December 15, 2000. Except as previously disclosed, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statement is 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 2000-10625-012.

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 statement 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 statement. The reportable conditions are described in the accompanying schedule of findings as items 2000-10625-013 through 2000-10625-019.

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 statement 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 2000-10625-013 through 2000-10625-015 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

May 29, 2001

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JULY 1, 2000 THROUGH DECEMBER 31, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Findings for Recovery

FINDING NUMBER 2000-10625-001

The School did not remit \$25,610 of federal income taxes withheld from wages earned by employees to the Internal Revenue Service. Pursuant to 26 U.S.C. § 3402, every employer making payment of wages shall deduct and withhold upon such wages a tax. Furthermore, 26 U.S.C. § 3403 requires that employers shall be liable for the payment of the tax required to be deducted and withheld pursuant to 26 U.S.C. § 3402.

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, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of twenty-five thousand six hundred and ten dollars (\$25,610), plus penalties and interest, in favor of the Internal Revenue Service.

FINDING NUMBER 2000-10625-002

The School did not remit \$7,681 of state income taxes withheld from wages earned by employees to the State of Ohio. Ohio Rev. Code § 5747.06 provides that an employer shall deduct and withhold tax from the compensation of its employees. Pursuant to Ohio Rev. Code § 5747.07(B), employers must file a return and pay the amounts that are withheld under § 5747.06.

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, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of seven thousand six hundred and eighty-one dollars (\$7,681), plus penalties and interest, in favor of the State of Ohio.

FINDING NUMBER 2000-10625-003

The School did not remit \$3,832 of Medicare taxes withheld from wages earned by employees to Medicare. 26 U.S.C. § 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 employees' wages. Pursuant to 26 U.S.C. § 3102 (b), every employer required to deduct the tax, shall be liable for the payment of the tax.

The School also did not remit the employer share of Medicare taxes, \$3,832, to Medicare. 26 U.S.C. § 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. Pursuant to 26 C.F.R. § 31.3111-4 (2001), an employer is liable for the employer tax with respect to the wages paid to its employees for employment performed for the employer.

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, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of seven thousand six hundred and sixty-four dollars (\$7,664), plus penalties and interest, in favor of the US Treasury.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Findings for Recovery (Continued)

FINDING NUMBER 2000-10625-004

The School did not remit \$5,264 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, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of five thousand two hundred sixty-four dollars (\$5,264), plus penalties and interest, in favor of the City of Columbus, Ohio.

FINDING NUMBER 2000-10625-005

The School did not remit \$7,069 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 foregoing 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, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of seven thousand sixty-nine dollars (\$7,069), plus penalties and interest, in favor of the State Teachers Retirement System.

FINDING NUMBER 2000-10625-006

The School did not remit \$10,642 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."

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Findings for Recovery (Continued)

FINDING NUMBER 2000-10625-006 (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 misappropriated is hereby issued against John Hazelwood, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of ten thousand six hundred forty-two dollars (\$10,642), plus penalties and interest, in favor of the State Teachers Retirement System.

FINDING NUMBER 2000-10625-007

The School did not remit \$27,823 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, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of twenty-seven thousand eight hundred twenty-two dollars (\$27,823), plus penalties and interest, in favor of the School Employees Retirement System.

FINDING NUMBER 2000-10625-008

The School did not remit \$43,359 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.

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 misappropriated is hereby issued against John Hazelwood, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of forty-three thousand three hundred fifty-nine dollars (\$43,359), plus penalties and interest, in favor of the School Employees Retirement System.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Findings for Recovery (Continued)

FINDING NUMBER 2000-10625-009

The School did not remit \$565 in child support payments withheld from wages earned by employees. Pursuant to Ohio Rev. Code Section 3121.03(A)(1) [formerly Ohio Rev. Code Section 3113.21 (D)], employers that withhold child support payments as required by a support order must send the amounts withheld to the Office of Child Support in the Department of Job and Family Services.

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, Bryan Jones, Mark Lisath, and the School's management consultant, By His Word, Inc., jointly and severally, in the amount of five hundred sixty-five dollars (\$565) in favor of the Ohio Department of Job and Family Services for Hamilton County Child Support Case Numbers 7006520475 (\$366) and 7006520467 (\$199).

Material Noncompliance

FINDING NUMBER 2000-10625-010

Ohio Rev. Code Section 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 of July 1, 2000 through December 31, 2000.

FINDING NUMBER 2000-10625-011

Ohio Rev. Code section 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.

FINDING NUMBER 2000-10625-012

Ohio Administrative Code section 117-2-01(G) states that each school district which employs a cash basis system of accounting shall employ the uniform system of accounting prescribed in rules 117-2-02 to 117-2-21 of the Administrative Code.

The School only maintained a portion of the fiscal period's payroll according to USAS. All other transactions were posted to a manual cash journal.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Material Weaknesses

FINDING NUMBER 2000-10625-013

Payroll

We noted the following in the system for processing payroll:

- Employees were not approved for hire 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.
- No review of standing data and information entered into the accounting system of the School's management company was reviewed.
- Adequate records were not maintained indicating leave accruals or leave time taken during the period.
- The School failed to pay withholdings when due.

Failure to establish such controls could result in erroneous or unauthorized payments.

FINDING NUMBER 2000-10625-014

Purchasing Cycle

We noted the following:

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

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.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Material Weaknesses (Continued)

FINDING NUMBER 2000-10625-015

Debt

The School has significant loans outstanding from 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.

Reportable Conditions

FINDING NUMBER 2000-10625-016

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 such controls could result in undetected errors or irregularities.

FINDING NUMBER 2000-10625-017

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.

**HIGH LIFE YOUTH DEVELOPMENT CENTER
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Reportable Conditions (Continued)

FINDING NUMBER 2000-10625-018

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.

FINDING NUMBER 2000-10625-019

Bank Reconciliations

Limited bank reconciliation procedures were performed with the School's manual ledger. No reconciliation showing bank balances reconciled to the book balances, including reconciling items, was prepared at the close of each month for the general or payroll accounts.

The lack of a monthly bank to book reconciliation may lead to improperly stated financial statements and reports in addition to occurrences of errors, irregularities, or fraud without the timely detection of management.



STATE OF OHIO
OFFICE OF THE AUDITOR

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HIGH LIFE YOUTH DEVELOPMENT CENTER

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
JULY 5, 2001**