



**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Life Skills Center of Cleveland
Cuyahoga County
3222 Carnegie Avenue
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited the Balance Sheet of the Life Skills Center of Cleveland, Cuyahoga County, (the School) as of June 30, 2002, and the related Statements of Revenue, Expenses, and Changes in Retained Earnings and of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Life Skills Center of Cleveland, Cuyahoga County, as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2003, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Betty Montgomery
Auditor of State

January 13, 2003

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**Life Skills Center of Cleveland
Cuyahoga County
Balance Sheet
As of June 30, 2002**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 101,451
State Funding Receivable	322,311
Grants Receivable	111,491
Continuing Fees Receivable	<u>29,942</u>
 Total Current Assets	 565,195

Noncurrent Assets

Property, Plant & Equipment - Net	<u>8,968</u>
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Total Assets

\$ 574,163

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	\$ 1,007
State Funding Payable	30,867
Grants Funding Payable	118,555
Continuing Fees Payable	<u>312,643</u>
 Total Current Liabilities	 463,072

EQUITY

Retained Earnings	<u>111,091</u>
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Total Liabilities and Equity

\$ 574,163

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

**Life Skills Center of Cleveland
Cuyahoga County
Statement of Revenue, Expenses, and Changes in Retained Earnings
For the Year Ended June 30, 2002**

OPERATING REVENUE

State Foundation	\$ 2,721,155
Vocational Funding	322,311
	3,043,466

OPERATING EXPENSES

Purchased Services: Management Fees	2,952,162
Purchased Services: Grant Administration	280,953
Legal	29,885
Insurance	8,729
Auditing and Accounting	6,389
Depreciation	4,484
Board Stipends	5,060
Miscellaneous	1,882
	3,289,544

Operating Loss	(246,078)
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NON-OPERATING REVENUE

Grants	294,490
	48,412

Net Income	48,412
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Retained Earnings, July 1, 2001	62,679
	111,091

Retained Earnings, June 30, 2002	\$ 111,091
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The notes to the financial statements are an integral part of this statement.

**Life Skills Center of Cleveland
Cuyahoga County
Statement of Cash Flows
For the Year Ended June 30, 2002**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State Sources	\$ 3,098,493
Cash Payments to Suppliers for Goods and Services	<u>(3,295,211)</u>
Net Cash Used for Operating Activities	(196,718)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital Expenditures	(13,452)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs	<u>202,277</u>
Net Decrease in Cash and Cash Equivalents	(7,893)
Cash and Cash Equivalents at Beginning of Year	<u>109,344</u>
Cash and Cash Equivalents at End of Year	<u>\$ 101,451</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss	\$ (246,078)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	4,484
Changes in Assets and Liabilities:	
State Funding Receivable	24,160
Continuing Fees Receivable	(29,942)
Accounts Payable	(1,006)
State Funding Payable	30,867
Grants Funding Payable	118,555
Continuing Fees Payable	<u>(97,758)</u>
Total Adjustments	<u>49,360</u>
Net Cash Used for Operating Activities	<u>\$ (196,718)</u>

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

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**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Life Skills Center of Cleveland (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. 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 contracts with WHLS of Ohio, LLC (WHLS) for most of its functions (See Note 8.)

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years from August 13, 1999 through June 30, 2004. The School operates under a self-appointing eight-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility that is not part of the reporting entity, paid for by WHLS and staffed by teaching personnel employed by WHLS which provides services to 530 students. The Board also operates 6 Hope Academies and 1 other Life Skills Centers in the cities of Akron and Cleveland. In Cleveland, the Board operates the HOPE Academy Cathedral Campus, HOPE Academy Broadway Campus, HOPE Academy Chapelside Campus, HOPE Academy Lincoln Park Campus, and the Life Skills Center of Cleveland. In Akron, it operates the HOPE Academy Brown Street Campus and the HOPE Academy University Campus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

pronouncements. The more significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. BUDGETARY PROCESS

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. CASH AND CASH EQUIVALENTS

All cash received by the School is maintained in a demand deposit account. For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. FIXED ASSETS AND DEPRECIATION

The School has title to certain assets that were paid for with Federal grant dollars. For the year ended June 30, 2002, this consisted only of computers purchased for the School's Title I program. The assets are recorded on the accompanying balance sheet at cost, net of accumulated depreciation of \$4,484. Depreciation is computed by the straight-line method over an estimated useful life of 3 years (See Note 8.)

Aside from those mentioned above, the School has no other fixed assets, as the School operates under a management agreement with WHLS.

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program. Revenue received from these programs is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the school must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES (Continued)

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$150,000 during the year ended June 30, 2002 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled \$3,337,956.

G. USE OF ESTIMATES

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. DEPOSITS

At year-end, the carrying amount of the School's deposits was \$101,451, and the bank balance was \$104,192. Of the bank balance, \$100,000 was covered by federal depository insurance. \$4,192 was uninsured and uncollateralized.

4. STATE FUNDING RECEIVABLE/ PAYABLE

The School has recognized on its balance sheet a "State funding receivable". This consists of Career Based Intervention ("vocational") funding that the School applied for during the fiscal year ended June 30, 2002. Until the passage of House Bill 94 by the Ohio legislature in June 2001, the School had not been eligible for vocational funding. During the year, the School completed an application to the Ohio Department of Education to qualify its program for vocational funding. On April 26, 2002, the State granted its approval of the School's program stating that it would pay up to 460 hours of educational opportunities per student out of a total of 920 hours. The total of \$322,311 is the total estimated to be received from the State as of June 30, 2002. No payments had been made to the School as of year end.

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

4. STATE FUNDING RECEIVABLE/ PAYABLE (Continued)

The School has also recognized on its balance sheet a "State funding payable" for the amount of State Basic Aid estimated to be repaid by the School to the Ohio Department of Education (ODE) based on the difference in the amount the school actually received versus the amount earned through student full-time equivalent (FTE) enrollment as determined at the end of the year. A payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the FTE enrollment figure was calculated to be at year end. At June 30, 2002 the amount of "State funding payable" was \$30,867.

5. CONTINUING FEES RECEIVABLE/ PAYABLE

Under the terms of the management agreement (See Note 8), a related "Continuing fees payable" to WHLS has been recorded by the school for 97% of the amount of "State funding receivable" due from the State for vocational funding (See Note 4.)

Conversely, a "Continuing fees receivable" from WHLS has been recorded by the school for 97% of the "State funding payable" due to the State for the FTE liability (See Note 4.)

6. GRANTS RECEIVABLE/ PAYABLE

The School has recorded "Grants receivable" in the amount of \$111,491 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2002.

Additionally, under the terms of the management agreement (See Note 8), the School has recorded a liability to WHLS in the amount of \$118,555 for 100% of any State and Federal monies uncollected or received and unpaid to WHLS as of June 30, 2002.

7. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with WHLS, WHLS has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (See Note 8.)

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

7. RISK MANAGEMENT (Continued)

Director and Officer - Coverage has been purchased by the School with a \$2,000,000 aggregate limit and no deductible.

8. AGREEMENT WITH WHLS

Effective July 22, 1999, the School entered into a five-year Management Agreement (Agreement) with WHLS which is an educational consulting and management company. The Agreement's term coincides with the school's charter agreement. Substantially all functions of the School have been contracted to WHLS. WHLS is responsible and accountable to the School's Board of Trustees (the "School Board") for the administration, operation and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses for the year ended June 30, 2002 to WHLS of \$3,233,115 and payables to WHLS at June 30, 2002 aggregating \$431,198. Significant provisions of the Agreement are as follows:

Financial Provisions

Management, Consulting, and Operation Fee. The School is required to pay WHLS a monthly continuing fee of 97% of the School's "Qualified Gross Revenues", defined in the Agreement as, "...all revenues and income received by the School except for charitable contributions" and "shall receive 100% of any and all grants or funding of any kind generated by the Company, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any." The continuing fee is paid to the Company based on the previous month's qualified gross revenues.

Other School Financial Responsibilities. The School is responsible for its directors' and officers' insurance, legal fees for School Board representation and general corporate matters, accounting, audit, tax and consulting fees for the School, and other miscellaneous expenses not incurred in the normal day-to-day operation of the School.

WHLS Financial Responsibilities

Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by WHLS. Such costs include, but are not limited to, salaries and benefits for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance,

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

8. AGREEMENT WITH WHLS (Continued)

and capital improvements. All personal property used in the operation of the School is the property of WHLS, unless purchased directly by the School with its separate funds or with Federal funds.

WHLS is required to maintain, at WHLS' expense, commercial general liability insurance in the name of the School in an amount not less than \$1 million per occurrence and \$2 million in the aggregate, and excess umbrella liability insurance of not less than \$10 million per occurrence and \$15 million in the aggregate.

Personnel

WHLS has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer and terminate personnel, consistent with state and federal law and the Contract.

Compensation and benefits of all employees of the School is paid by WHLS. If WHLS fails to pay this compensation, the School, in its sole discretion, may pay such compensation and offset the amount by withholding an equal amount from the fees owed to WHLS under the Agreement.

Agreement Termination

Termination by the School. The School may terminate the Agreement in the event WHLS materially breaches the Agreement or the Contract and WHLS does not cure the material breach within 90 days of its receipt of written notice from the School, unless the breach cannot be reasonably cured within 90 days, in which case WHLS shall promptly undertake and continue efforts to cure said material breach within a reasonable time.

Termination by WHLS. WHLS may, at its option, terminate the Agreement upon the occurrence of certain events as defined in the Agreement.

9. DEFINED BENEFIT PENSION PLANS

The School has contracted with WHLS to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below: (See Note 8)

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

9. DEFINED BENEFIT PENSION PLANS (Continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

WHLS, on behalf of 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, annual cost-of-living adjustments, 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, stand-alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2001, 4.20% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the years ended June 30, 2002, 2001, and 2000 were \$13,231, \$5,805 and \$5,328, respectively.

B. STATE TEACHERS RETIREMENT SYSTEM

WHLS, on behalf of the School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustment, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3% of their annual covered salaries. The School was required to contribute 14%; 9.5% 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% for members and 14% for employers. The School's required contributions for pension obligations to STRS for the years ended June 30, 2002, 2001, and 2000 were \$57,658, \$36,443, and \$12,798, respectively.

10. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$27,312 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

10. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For fiscal year 2002, employer contributions to fund health care benefits were 8.54% of covered payroll. For fiscal year 2001, 9.8% was used to fund health care benefits. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and member's pay, pro-rated for partial credit. For fiscal year 2002, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million.

At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School, the amount to fund health care benefits, including surcharge, equaled \$21,221 during the 2002 fiscal year.

11. FEDERAL TAX EXEMPTION STATUS

During October 2001, the school applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Should the School fail to obtain federal tax-exempt status, it could be subject to federal income tax, the effect of which has not been assessed. As of January 13, 2003 the Internal Revenue Service has not yet granted this exemption.

12. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

**LIFE SKILLS CENTER OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

12. CONTINGENCIES (Continued)

B. Pending Litigation

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

13. STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School is unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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**Auditor of State
Betty Montgomery**

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

Life Skills Center of Cleveland
Cuyahoga County
3222 Carnegie Avenue
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited the financial statements of Life Skills Center of Cleveland, Cuyahoga County, (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 13, 2003. 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 statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted an immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated January 13, 2003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 13, 2003



**Auditor of State
Betty Montgomery**

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LIFE SKILLS CENTER OF CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2003**