



**Auditor of State
Betty Montgomery**

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Life Skills Center of Southwestern Columbus
Franklin County
3700 Corporate Dr., Suite 140
Columbus, Ohio 43231

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Life Skills Center of Southwestern Columbus, Franklin County, Ohio (the School), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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 Southwestern Columbus, Franklin County, Ohio, as of June 30, 2004, and the changes in its financial position 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 May 4, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

May 4, 2005

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of Life Skills Center of Southwestern Columbus' (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. Readers should also review the basic financial statements and notes to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased \$32,188 in fiscal year 2004.
- Due to increased enrollment, total revenue increased from \$1,276,687 in fiscal year 2003 to \$2,280,087 in fiscal year 2004.
- Similarly, total expenses increased from \$1,272,445 in fiscal year 2003 to \$2,247,899 in fiscal year 2004.
- Current liabilities increased \$53,228 with current assets increasing \$85,416 in fiscal year 2004.
- The School has no long term debt outstanding as of June 30, 2004.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* reflect how the School did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

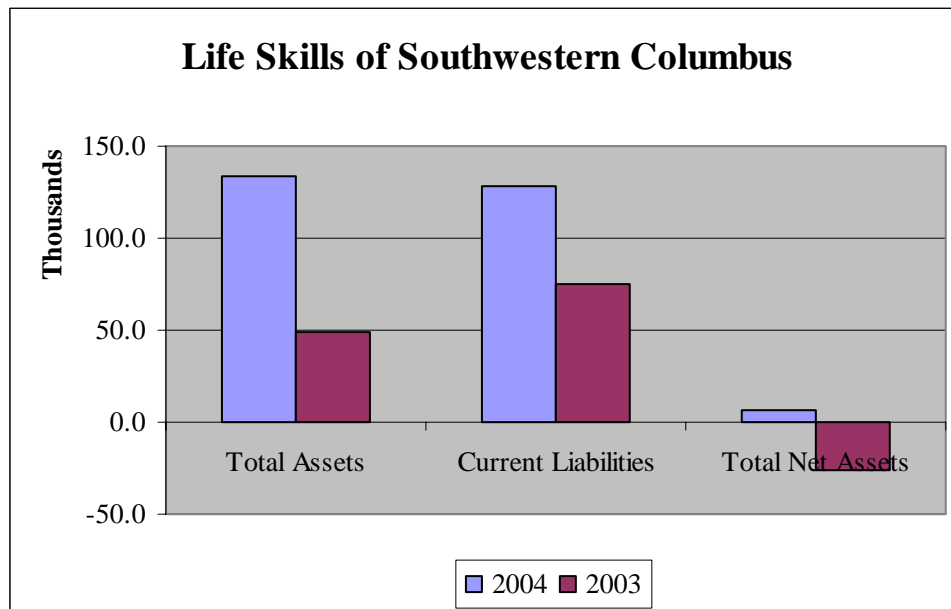
Table 1 provides a summary of the School's net assets for 2004 compared to the prior year.

Table 1 Net Assets		
	2004	2003
<u>Assets:</u>		
Cash and Other Current Assets	\$133,990	\$48,574
Total Assets	133,990	48,574
<u>Liabilities:</u>		
Current Liabilities	127,935	74,707
Total Liabilities	127,935	74,707
<u>Net Assets:</u>		
Unrestricted	6,055	(26,133)
Total Net Assets	\$6,055	(\$26,133)

Cash and other current assets increased from \$48,574 in 2003 to \$133,990 in 2004. This is due to an increased enrollment and the identification of outstanding receivables, thereby showing large cash and other current assets balance as of June 30, 2004.

Accounts payable increased from \$61,785 in 2003 to \$83,909 in 2004 as a result of increased amounts owed to WHLS, Inc. related to the management agreement for federal grants receivable. Intergovernmental payable increased from \$12,922 in 2003 to \$41,512 in 2004 as a result of additional amounts owed to the Ohio Department of Education for receipts in excess of amounts owed to the School for full time equivalency.

Total net assets increased by \$32,188. Two factors contribute to this increase. First, the School recorded additional net revenue from increased enrollment in fiscal year 2004. Second, the per pupil allotment also increased from \$4,949 in fiscal year 2003 to \$5,058 in fiscal year 2004.



**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 shows Changes in Net Assets for the past 2 years.

Table 2 Changes in Net Assets		
	2004	2003
<u>Operating Revenues</u>		
Foundation	\$2,200,590	\$1,128,992
<u>Non-Operating Revenues</u>		
Grants	79,497	147,695
Total Revenues	2,280,087	1,276,687
<u>Operating Expenses</u>		
Fringe Benefits	79,018	30,944
Other Services	1,200	1,234
Professional Services	2,153,500	1,217,333
Advertising	200	183
Liability Insurance	264	1,380
Legal Services	0	167
Other Services and Overhead	0	10,579
Rent	9,000	9,000
Board Services Meeting Expenses	3,125	1,625
<u>Non-Operating Expenses</u>		
Income Tax Expenses	1,592	0
Total Expenses	2,247,899	1,272,445
Total Increase in Net Assets	\$32,188	\$4,242

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 97% of revenues for the School in fiscal year 2004. Grant revenues decreased substantially due to the reduction of federal startup funding. The growth in funding and expenses corresponds to the growth in enrollment. Enrollment (based on FTE) for fiscal year 2003 was 190 compared to 353 in fiscal year 2004.

Budgeting Highlights

The School is not required to follow the budgetary provisions set forth in Ohio Revised Code Section 5705.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School had no capital assets. Per the management agreement, all capital assets are owned by WHLS of Ohio, LLC.

Debt

At June 30, 2004, the School had no long term debt.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Current Financial Related Activities

The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase.

Contacting Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Anthony English, Treasurer, Life Skills Center of Southeastern Columbus, 1900 E Dublin-Granville Rd. Columbus, OH 43229.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

ASSETS

Current Assets

Cash	\$ 44,106
Accounts Receivable	41,890
Intergovernmental Receivable	<u>47,994</u>

Total Assets

133,990

LIABILITIES

Current Liabilities

Accounts Payable	83,909
Intergovernmental Payable	<u>44,026</u>

Total Liabilities

127,935

NET ASSETS

Unrestricted Net Assets	<u><u>\$ 6,055</u></u>
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The accompanying notes basic to the financial statements are an integral part of this statement.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

OPERATING REVENUE

Foundation	\$ 2,200,590
Total Operating Revenues	2,200,590

OPERATING EXPENSES

Fringe Benefits	79,018
Other Services	1,200
Professional Services	2,153,500
Advertising	200
Liability Insurance	264
Rent	9,000
Board Services Meeting Expenses	3,125
Total Operating Expenses	2,246,307

Operating Loss	(45,717)
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NON-OPERATING REVENUE (EXPENSE)

State Grants	10,925
Federal Grants	68,572
Federal and Local Income Tax Expense	(1,592)
Total Non-Operating Revenues (Expenses)	77,905

Changes in Net Assets	32,188
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Net Assets, July 1, 2003 (as restated - see Note 3)	(26,133)
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Net Assets, June 30, 2004	\$ 6,055
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The accompanying notes to the basic financial statements are an integral part of this statement.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

INCREASE (DECREASE) IN CASH

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State Sources	\$ 2,171,963
Cash Payments to Suppliers for Goods and Services	<u>(2,194,671)</u>

Net cash used for operating activities	<u>(22,708)</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs	<u>31,503</u>
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Net cash provided by noncapital financing activities	<u>31,503</u>
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Net Increase in Cash	8,795
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Cash at Beginning of Year	<u>35,311</u>
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Cash at End of Year	<u><u>\$ 44,106</u></u>
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**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss	(45,717)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(28,627)
Increase in Accounts Payable	22,124
Increase in Intergovernmental Payable	<u>29,512</u>

Total Adjustments	23,009
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Net cash used for operating activities	<u><u>\$ (22,708)</u></u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

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**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Life Skills Center of Southwestern Columbus (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 6.

The School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years from May 16, 2000 through June 30, 2005. The School operates under a self-appointing four-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, which is leased by WHLS. The facility is staffed with teaching personnel employed by WHLS, who provide services to 353 students. Certain members of the Board are also members of the Board of the Life Skills Center of Southeastern Columbus, the Life Skills Center of Northern Columbus and the YouthBuild Columbus Community School.

The Ellendale Group, a state nonprofit organization established pursuant to Ohio Rev. Code Chapter 1702, was originally formed in September 2001 to provide a fostering structure for the provision, development and management of one or more community schools in Franklin County, Ohio, and for any and all lawful purposes for which a corporation may be formed under Chapter 1702 of the Revised Code. The Ellendale Group intended to govern approved contracts for community schools with the following names: the Life Skills Center of Columbus, the Life Skills Center of Southwestern Ohio and the Life Skills Center of Montgomery County (name to be changed once location of school was determined).

Pursuant to the instruction and requirement of the Ohio Department of Education with respect to the three (3) Life Skills Centers in the Columbus area, and the assignments of each community school contract, a separate nonprofit entity had to be formed to govern each School. As a result, the Ellendale Group amended its articles of incorporation in June 2002 in order to change the name of the nonprofit to the Life Skills Center of Southeastern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Columbus. A nonprofit was formed May 2002 in the name of the Life Skills Center of Northern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Montgomery County. Also formed in May 2002 was the nonprofit entity the Life Skills Center of Southwestern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Southwestern Ohio.

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

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. BASIS OF PRESENTATION

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the School received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time 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.

D. CASH AND CASH EQUIVALENTS

All cash received by the School is maintained in a demand deposit account. The School did not have any investments during fiscal year 2004.

E. CAPITAL ASSETS AND DEPRECIATION

The School operates under a management agreement with WHLS, and as such the School has no capital assets. (See Note 6)

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenue received from these programs are recognized as operating revenues.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

The School also participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Under this program, the School was awarded \$68,572 during the year ended June 30, 2004. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above programs for the 2004 school year totaled \$2,280,087

G. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

H. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. 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. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT

Change in Accounting Principle – The School has implemented GASB Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments.” For the School, GASB 34 changes financial statement classifications (i.e. retained earnings are now referred to as net assets) and the inclusion of Management’s Discussion and Analysis as required supplementary information.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT (Continued)

Restatement – The School has restated net assets at June 30, 2003, to recognize expenses that were previously unallowed due to the terms of the contracts and are now being recognized based on new amended contracts. Retained Earnings/net assets as of June 30, 2003, and net income for the fiscal year ended June 30, 2003, have been restated as follows:

Effect of restatement on Net Assets reported as of June 30, 2003:		
Retained Earnings as of June 30, 2003 (as reported)		\$867
Additional expenses related to rent, office support, and professional services for fiscal year:		
2002	(21,000)	
2003	<u>(6,000)</u>	
Net Assets as of June 30, 2003 (restated)		(\$26,133)

Effect of restatement on Net Income reported for the fiscal year ended June 30, 2003:		
Net Income for the fiscal year ended June 30, 2003 (as reported)		\$10,242
Additional expenses related to rent for fiscal year 2003		<u>(6,000)</u>
Net Income for the fiscal year ended June 30, 2003 (restated)		\$4,242

4. DEPOSITS

At June 30, 2004, the carrying amount of the School's deposits was \$44,106 and the bank balance was \$44,106. Of the bank balance, all was covered by federal depository insurance. No amounts were uninsured and uncollateralized.

5. 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 6).

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and no deductible.

Worker's Compensation – WHLS is responsible for paying the State Workers Compensation System a premium for employee injury coverage.

6. AGREEMENT WITH WHLS

Effective January 27, 2003, the School entered into a three-year Management Agreement (Agreement) with WHLS, which is an educational consulting and management company. The agreement's termination date is June 30, 2005. WHLS is responsible and accountable to the 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, 2004 to WHLS of \$2,115,447. Significant provisions of the Agreement are as follows:

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. AGREEMENT WITH WHLS (Continued)

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 WHLS, 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 WHLS 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, 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 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.

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 30 days of its receipt of written notice from the School, unless the breach cannot be reasonably cured within 30 days, in which case the 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.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. PROFESSIONAL SERVICES CONTRACT

The School contracts with Youth Over Us, Inc., a nonprofit corporation, to provide office facilities space and professional services relating to financial record keeping, audit preparation and grants research. Monthly services are billed as follows:

Office rental space	\$ 750
Office Support	100
Bookkeeping	1,000
Grants research	<u>250</u>
Total monthly bill	\$2,100

The School previously contracted with YouthBuild Columbus and RLJ Management for these same services at the same rates. Pursuant to the contracts signed with Youth Over Us, they are responsible for collecting for any services provided prior to June 30, 2004, from YouthBuild Columbus and RLJ Management as payments were made to those entities per earlier contracts.

The School also previously contracted with YouthBuild Columbus to set up the School's computerized financial system. The School was billed \$9,375 for these services in September 2001.

The contract with Youth Over Us also contains a provision for audit preparation services in the amount of \$2,500/year for preparing notes to the financial statements and interaction with the auditors.

During fiscal year 2004, \$52,075 was paid to YouthBuild Columbus for services provided prior to June 30, 2004. Youth Over Us, Inc. is therefore required to collect any amounts due for services provided to the School from YouthBuild Columbus.

As of June 30, 2004, the School had incurred expenses of \$83,275 related to these contracted services. A balance of \$31,200 is outstanding.

8. 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 6)

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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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 10% of their annual covered salary and WHLS (on behalf of the School) is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

A portion of WHLS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2004, 9.09% of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17% 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 contribution for pension obligations to SERS for the fiscal years ended June 30, 2004 and 2003 were \$13,500 and \$7,127; 100% has been contributed.

B. STATE TEACHERS RETIREMENT SYSTEM

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. WHLS (on behalf of the School) was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

The School's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, and June 30, 2003 were \$63,913 and \$32,812; 100% has been contributed.

9. 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 of Ohio (STRS Ohio), and to retired noncertified 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.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. STRS Ohio pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268.739 million and STRS Ohio had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$9,569. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

10. 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.

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. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the State Public Educational System and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Life Skills Center of Northern Columbus is not presently determinable.

C. FULL TIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2004 resulted in the discovery of an overpayment to the School in the amount of \$42,434. This amount has been recorded as intergovernmental payable in the financial statements. Under the terms of the management agreement with WHLS (See Note 6), a related accounts receivable in the amount of \$41,161 has been recorded by the School for 97% of the amount due from WHLS.

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

11. FEDERAL TAX STATUS

In accordance with the options granted under existing Ohio law, the School has not filed for tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The School has indicated that it will operate the School as an Ohio not-for-profit corporation but will not currently apply for tax exempt status under any Internal Revenue Code Section, including, but not limited to, Internal Revenue Code Section 501(c)(3). As such, the School is subject to federal income tax. The Statement of Net Assets includes a liability in the amount of \$1,592, which represents management's estimate federal and local income taxes for fiscal year 2004.

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

12. RELATED PARTY TRANSACTIONS

The transactions with YouthBuild Columbus and Youth Over Us described in Note 7 are related party transactions.

13. SUBSEQUENT EVENTS

The Board increased the number of Board members from four to seven at its meeting on January 11, 2005. The Board also approved Buckeye Community Hope Foundation as sponsor beginning July 1, 2005.



Auditor of State Betty Montgomery

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

Life Skills Center of Southwestern Columbus
Franklin County
3700 Corporate Dr., Suite 140
Columbus, Ohio 43231

To the Board of Trustees:

We have audited the basic financial statements of the Life Skills Center of Southeastern Columbus (the School) as of and for the year ended June 30, 2004, and have issued our report thereon dated May 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated May 4, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated May 4, 2005, we reported a matter related to noncompliance we deemed immaterial.

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Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We intend this report solely for the information and use of the management and the Board of Trustees. It is not intended for 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

May 4, 2005

**LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2003-001	Finding Repaid Under Audit	Yes	N/A.
2003-002	Finding Repaid Under Audit	Yes	N/A.
2003-003	Tax Exempt Status	No	Partially Corrected – the School filed income taxes for fiscal year 2003 and 2004. See comment in letter to management.



**Auditor of State
Betty Montgomery**

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**LIFESKILLS CENTER OF SOUTHWESTERN COLUMBUS
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
JUNE 2, 2005**