



Mary Taylor, CPA
Auditor of State

LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY

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Mary Taylor, CPA

Auditor of State

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

Life Skills Center of Middletown
Butler County
631 S. Breiel Blvd.
Middletown, Ohio 45042

To the Board of Directors:

We have audited the financial statements of Life Skills Center of Middletown, Butler County, Ohio, (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the School's management in a separate letter dated March 13, 2009.

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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*.

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated March 13, 2009.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, and the Community School's Sponsor. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

March 13, 2009

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2007-001 | Noncompliance –Credit Card Use and Travel Policies | No | Partially Corrected; See Management Letter |
| 2007-002 | Significant Deficiency – Internal Control | Yes | N/A |

Comprehensive Annual Financial Report

For the Year Ended June 30, 2008



Life Skills Center of Middletown

Middletown, Ohio

**Life Skills Center of Middletown
Middletown, Ohio**

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2008**

Prepared by Brian G. Adams MBA, CMA, CFM, CrFA, CGFM

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

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Introductory Section

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631 S Breiel Blvd
Middletown, Ohio 45042

(513) 423-1800 (p)
(513) 423-1818 (f)
www.lifeskillscenters.com

March 13th, 2009

Life Skills Center of Middletown Community
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Life Skills Center of Middletown (the School) for the fiscal year ended June 30, 2008. The CAFR is designed to assist and guide the reader in understanding its contents. The report consists of three major sections:

Introductory Section The Introductory Section includes the Transmittal Letter, a list of our Board members, an organizational chart, and GFOA Certificate of Achievement.

Financial Section The Financial Section consists of the Independent Accountants' Report, Management's Discussion and Analysis, and the Basic Financial Statements as well as the Notes to the Basic Financial Statements that provide an overview of the School's financial position and operating results.

Statistical Section The Statistical Section includes selected financial and demographic information about the School on a multi-year basis.

The School's management is responsible for the reliability of the data presented and the completeness of the presentation, including all disclosures. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the School. All disclosures necessary to enable the reader to gain an understanding of the School's financial activities have been included.

Further, the School has established a comprehensive framework of internal controls that is designed to compile sufficient reliable information for the preparation of its financial statements in accordance with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the School's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

Ohio law requires independent audits be performed on all financial operations of the School either by the Auditor of State or an independent public accounting firm in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). The Auditor of State's Office rendered an opinion on the School's financial statements as of June 30, 2008 and the Independent Accountants' Report on the Basic Financial Statements is included in the Financial Section herein.

As required by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", management is also responsible for preparing a discussion and analysis of the School. This Letter of Transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. This discussion follows the Independent Accountants' Report and provides an assessment of the School's finances for fiscal year 2008 and the outlook for the future.

Profile of the Government

Ohio charter schools began operating after the passage of a 1997 State law. Charter schools, commonly referred to as “community schools” in Ohio, are public, non-profit, non-sectarian schools established to operate independently of any School District. These schools also are exempt from many of the education laws of the State allowing them to bring innovation and efficiency to the traditional education model. More importantly, the passage of this law made the concept of school choice a reality in Ohio. As required by law, each of these community schools must have a sponsor. Effective July 1, 2005, the School entered into a contract with a sponsor, St. Aloysius Orphanage. St. Aloysius Orphanage provides oversight and advisory services to 38 community schools throughout the State serving nearly 10,200 children.

Life Skills Center of Middletown is a School that brings an innovative approach to addressing the high school dropout epidemic head on. This alternative high school program offers at-risk students ages 16-21 years old an opportunity to have a second chance at obtaining a quality education and vocational training and placement. Participation in this program leads students to a high school diploma, not a GED and places them on a path to success (see more at www.lifeskillscenters.com). The School, which first opened its doors in September 2001 in Middletown, Ohio, is run by a five member Board of Directors.

The School looks to its nearly eight-year history of consistently graduating students from its program twice a year as a measure of its success. The School has contracted with LS Middletown, LLC, a subsidiary of White Hat Management, LLC (the Company) to operate the School on a day-to-day basis. White Hat Management is a national leader in professional education management that serves nearly 18,000 students across multiple states. The Company has managed the School since its inception.

Economic Issues

Since the enactment of community school legislation, the School has been funded solely on the per pupil funding set forth by State of Ohio (see Statistical Section for historical funding levels). Historically, the School has seen increases in the base level per pupil funding amount (currently 0.89 percent between fiscal years 2009 and 2008). However, this amount is still less than the amount that traditional school districts in the State receive per pupil, primarily because community schools are not authorized by statute to levy taxes in the communities that they operate in. By comparison, the Middletown City School District receives over \$11,000 in average per pupil funding from all sources whereas the School (which is also located in the City of Middletown) receives only \$7,473 from all sources. These disparities in funding are in part, the reason why contracting with a professional educational management firm like White Hat Management was an attractive option. By managing multiple schools, the Company is able to gain operational efficiencies that are more difficult to achieve in a stand-alone school. In November 2005, the School renewed its management agreement with White Hat and its affiliates. (See Note 8 for a full description of services provided by the Company.)

As discussed later, the School was funded on 280 full-time equivalent students for fiscal year 2008. As of the date of this letter, it is expected that the School will maintain that enrollment with the possibility of a slight decline consistent with declines seen in other Life Skills Centers throughout the State. Obviously, any decline in enrollment would have a direct corresponding impact to current year revenues.

As a result of legislative changes, management companies that operate schools in the State of Ohio are required to provide more disclosure on how monies paid by the School to the company are spent. Auditor of State Bulletin No. 2004-009 provided the guidelines of how management companies are expected to comply with this provision and Note 9 to the basic financial statements under the Financial Section includes the required information for fiscal year ended June 30, 2008.

Awards and Acknowledgements

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Life Skills Center of Middletown for its CAFR for the year ended June 30, 2007. This was the fourth year that the School has received the award. The School was also acknowledged by the Ohio Department of Education as being one of the first community schools in the State to ever receive such an award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and effectively organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report, which is included herein, will conform to the high standards required by the Certificate of Achievement program.

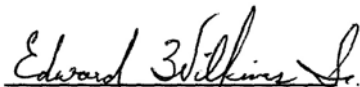
The Comprehensive Annual Financial Report was prepared by the fiscal management team for the School. Their commitment to this process has helped to make this report possible. We would also like to thank Mr. Wilkins and other members of the Board of Directors and Finance Committee for their support in this endeavor. It is truly appreciated.

Finally, we would like to thank our School community for entrusting us with the education of your children. You are the reason we are here. We are committed to bettering our students, their parents, and the communities we serve by providing the very best alternative in public education.

Sincerely,



Brian G. Adams MBA, CMA, CFM, CGFM
Fiscal Officer/Internal Auditor
Life Skills Center of Middletown



Edward Wilkins, Sr
President, Board of Directors
Life Skills Center of Middletown

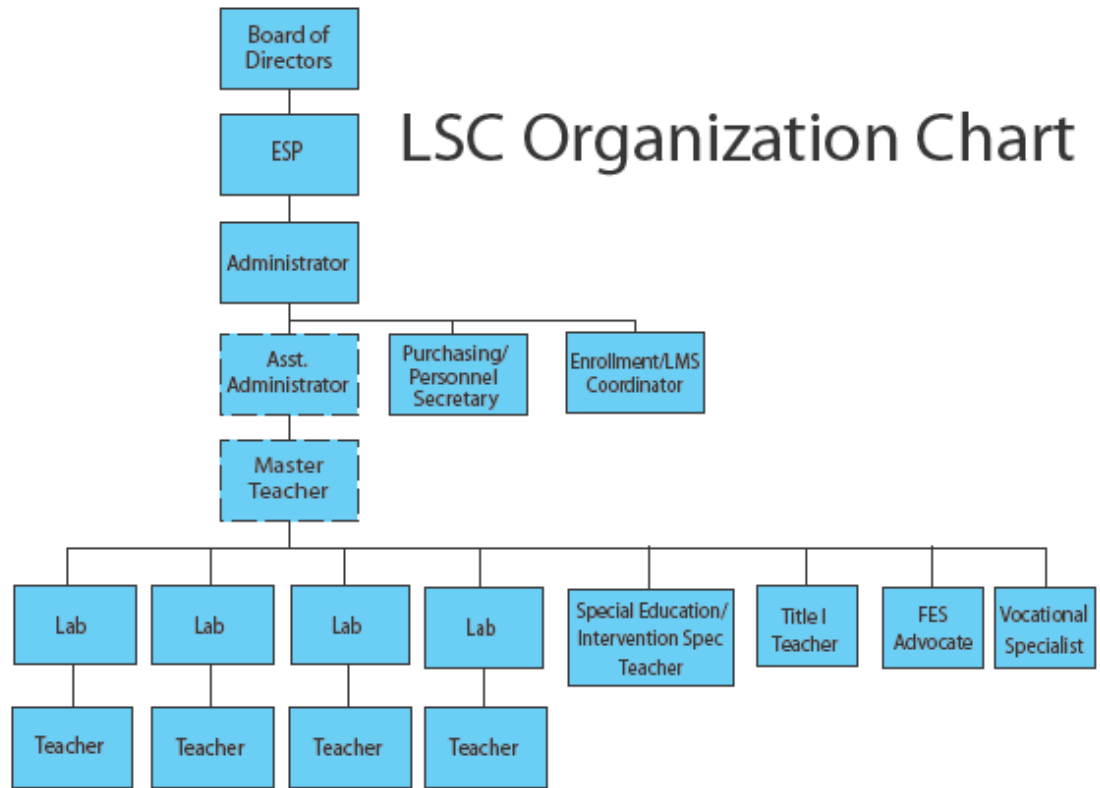
Life Skills Center of Middletown
Board of Directors
June 30, 2008

Edward Wilkins, Sr.
Nicole Barnes
Fred Shuemake
Terri Foster
Piper Moore

Board President
Board Vice President
Board Treasurer
Board Member
Board Secretary



LSC Organization Chart



 Optional Based on School Size

Education that fits your life

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Life Skills Center
of Middletown, Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Financial Section

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Life Skills Center of Middletown
Butler County
631 S. Breiel Blvd.
Middletown, Ohio 45042

To the Board of Directors:

We have audited the accompanying basic financial statements of the Life Skills Center of Middletown, Butler County, Ohio, (the School) as of and for the year ended June 30, 2008, as listed in the Table of Contents. 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 net assets of Life Skills Center of Middletown, Butler County, Ohio, as of June 30, 2008, and the changes in its net assets 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 March 13, 2009, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements. The introductory and statistical sections provide additional information and are not a required part of the basic financial statements. We did not subject the introductory and statistical sections to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 13, 2009

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

The discussion and analysis of the Life Skills Center of Middletown's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

- In total, net assets increased \$41,965, which represents a 21.5 percent increase from 2007. The increase is the result of the decreased expenses.
- Total assets decreased \$25,779, which represents a 5.6 percent decrease from 2007. This was primarily due to a decrease in grants receivables from the previous year.
- Liabilities decreased \$67,744, which represents a 26.0 percent decrease from 2007. The decrease in liabilities is a direct result of the decrease in Federal Grants Funding Payable.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include 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 presentation for all of its activities.

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2008. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

Table 1 provides a summary of the School's net assets for fiscal years 2008 and 2007.

(Table 1)
Statement of Net Assets

| | 2008 | 2007 |
|------------------------------|------------------|------------------|
| Assets | | |
| Current Assets | \$425,391 | \$446,330 |
| Capital Assets, Net | <u>5,264</u> | <u>10,104</u> |
| Total Assets | <u>\$430,655</u> | <u>\$456,434</u> |
| Liabilities | | |
| Current Liabilities | <u>\$193,168</u> | <u>\$260,912</u> |
| Net Assets | | |
| Investment in Capital Assets | \$ 5,264 | \$ 10,104 |
| Unrestricted | <u>232,223</u> | <u>185,418</u> |
| Total Net Assets | <u>\$237,487</u> | <u>\$195,522</u> |

Total assets decreased \$25,779, which represents a 5.6 percent decrease from 2007. This was primarily due to a decrease in grants receivables from the previous year. Liabilities decreased \$67,744, which represents a 26.0 percent decrease from 2007. This decrease directly corresponds to the receivables and subsequent payables due under the management agreement with WHLS of Ohio, LLC (WHLS). Under the terms of the management agreement, WHLS is paid a specific percentage of the State and Federal revenues the School receives.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2008 and 2007, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

(Table 2)
Change in Net Assets

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------|----------------------|----------------------|
| Operating Revenues | | |
| State Aid | \$1,962,206 | \$2,013,446 |
| Non-Operating Revenue | | |
| Grants | 117,973 | 210,288 |
| Interest Income | 12,000 | 12,365 |
| Miscellaneous | 187 | 67 |
| Total Revenues | <u>2,092,366</u> | <u>2,236,166</u> |
| Operating Expenses | | |
| Purchased Services: Management Fees | 1,864,095 | 1,912,774 |
| Purchased Services: Grant Programs | 117,974 | 195,769 |
| Sponsorship Fees | 19,622 | 20,488 |
| Legal | 19,542 | 17,290 |
| Auditing & Accounting | 21,654 | 20,265 |
| Insurance | 1,390 | 1,390 |
| Professional Services | - | 12,923 |
| Board of Education | 582 | 11,996 |
| Depreciation | 4,840 | 4,416 |
| Miscellaneous | 702 | 3,945 |
| Total Expenses | <u>2,050,401</u> | <u>2,201,256</u> |
| Change in Net Assets | <u>\$ 41,965</u> | <u>\$ 34,910</u> |

Overall revenues from 2007 to 2008 decreased slightly due to a decrease in enrollment from 283 to 280. The School's most significant expenses, "Purchased Services" decreased as well because of the management agreement in place between the School and WHLS. As stated previously, the agreement provides that specific percentages of the revenues received by the School will be paid to WHLS to fund operations. (See Notes to the Basic Financial Statements, Note 8)

Budgeting Highlights

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 community school's contract with its Sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year projection that is reviewed periodically by the Board of Directors. The five-year projections are also submitted to the Sponsor and the Ohio Department of Education.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

Capital Assets

At the end of fiscal year 2008 the School had \$5,264 invested in computers and software. For more information on capital assets, see Note 16 in the Notes to the Basic Financial Statements. Table 3 shows the changes in Capital Assets below.

(Table 3)

Capital Assets (Net of Depreciation)

| | <u>2008</u> | <u>2007</u> |
|------------------------|-----------------|------------------|
| Computers and Software | <u>\$ 5,264</u> | <u>\$ 10,104</u> |

Current Financial Issues

The Life Skills Center of Middletown received revenue for 280 students in 2008 (a decrease from 2007 of 3) and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$7,008 in fiscal year 2008 with a 3.0 percent increase in State Basic Aid planned in fiscal year 2009. The School receives additional revenues from grant subsidies.

On July 1, 2005, the School contracted with the Saint Aloysius Orphanage as its sponsor. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. Saint Aloysius Orphanage charged one percent of State Aid to be paid by the School for fiscal year 2008 and will charge one percent for fiscal year 2009.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Brian G. Adams, Fiscal Officer for the Life Skills Center of Middletown, 7215 Sawmill Rd, Suite 050, Dublin, OH 43016 or e-mail at badams@ocscltd.com.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS

Current Assets

| | |
|----------------------------|-------------|
| Cash and Cash Equivalents | \$267,544 |
| Grants Funding Receivable | 66,053 |
| Continuing Fees Receivable | 90,615 |
| Sponsor Fees Receivable | 1,108 |
| Receivable from Schools | <u>71</u> |
| Total Current Assets | 425,391 |

Noncurrent Assets

| | |
|---------------------------------|--------------|
| Depreciable Capital Assets, net | <u>5,264</u> |
|---------------------------------|--------------|

| | |
|---------------------|-------------------------|
| Total Assets | <u>\$430,655</u> |
|---------------------|-------------------------|

LIABILITIES

Current Liabilities

| | |
|------------------------|------------|
| Accounts Payable | 6,087 |
| State Funding Payable | 95,384 |
| Grants Funding Payable | 91,418 |
| Payable To Schools | <u>279</u> |

| | |
|--------------------------|-------------------------|
| Total Liabilities | <u>\$193,168</u> |
|--------------------------|-------------------------|

Net Assets

| | |
|------------------------------|----------------|
| Investment in Capital Assets | \$ 5,264 |
| Unrestricted | <u>232,223</u> |

| | |
|-------------------------|-------------------------|
| Total Net Assets | <u>\$237,487</u> |
|-------------------------|-------------------------|

See accompanying notes to the basic financial statements

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Operating Revenues

State Aid \$1,962,206

Operating Expenses

Purchased Services: Management Fees 1,864,095

Purchased Services: Grant Programs 117,974

Sponsorship Fees 19,622

Legal 19,542

Auditing and Accounting 21,654

Insurance 1,390

Board of Education 582

Depreciation 4,840

Miscellaneous 702

Total Operating Expenses 2,050,401

Operating Loss (88,195)

Non-Operating Revenue

Grants 117,973

Interest Income 12,000

Miscellaneous 187

Total Non-Operating Revenue 130,160

Change in Net Assets 41,965

Net Assets Beginning of Year 195,522

Net Assets End of Year \$ 237,487

See accompanying notes to the basic financial statements.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------------|
| Cash Received from State of Ohio | \$1,988,921 |
| Cash Payments to Suppliers for Goods and Services | <u>(2,165,891)</u> |
| Net Cash Used For Operating Activities | (176,970) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|------------|
| Cash Received from Grant Programs | 213,906 |
| Miscellaneous Cash Deposits | <u>187</u> |
| Net Cash Provided by Noncapital Financing Activities | 214,093 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|---------------|
| Cash Received from Interest on Investments | <u>12,376</u> |
|--|---------------|

Net Increase in Cash and Cash Equivalents 49,499

Cash and Cash Equivalents Beginning of Year 218,045

Cash and Cash Equivalents End of Year \$ 267,544

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED FOR OPERATING ACTIVITIES

Operating Loss \$ (88,195)

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET

CASH USED FOR OPERATING ACTIVITIES

Depreciation 4,840

Changes in Assets and Liabilities:

| | |
|----------------------------|-------------|
| Accounts Receivable | - |
| Continuing Fees Receivable | (25,379) |
| Sponsor Fees Receivable | (421) |
| Receivable From School | (71) |
| Accounts Payable | (1,987) |
| State Funding Payable | 26,715 |
| Grants Funding Payable | (92,082) |
| Sponsor Fees Payable | (337) |
| Payable to Schools | <u>(53)</u> |

Net Cash Used For Operating Activities \$ (176,970)

See accompanying notes to the basic financial statements

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**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Life Skills Center of Middletown (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 LS Middletown, LLC, a Nevada limited liability company, for most of its functions. WHLS of Ohio, LLC, a Nevada limited liability company ("WHLS") dba White Hat Management Company, is the sole member of LS Middletown, LLC and is the entity with which the School's board interacts regarding day-to-day operations (see note 8 for details).

The School was originally approved for operation under contract with the Ohio State Board of Education for a period of five years from May 16, 2000 through June 30, 2005. Effective July 1, 2005, House Bill 364 required schools sponsored by the Ohio Department of Education to have new sponsorship in place by June 30, 2005. The School signed a contract with a sponsor, Saint Aloysius Orphanage (Sponsor), to operate for a period from July 1, 2005 through June 30, 2010.

The School operates under a self-appointing, five-member Board of Directors (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 director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, 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 School began operations in September 2001 and has one instructional/support facility, which is leased by WHLS. The facility is staffed with teaching personnel employed by WHLS, who provide services to 280 students. The Board also operates and serves on the Life Skills Center of Springfield in the City of Springfield.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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 (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The School does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

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. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. 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.

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 Statement of Net Assets. 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. In addition, the Board adopted an operating budget at the beginning of fiscal year 2008. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash and Cash Equivalents

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

During fiscal year 2008, investments were limited to the State Treasurer's Investment Pool, STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2008.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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, which are reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Assets. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions 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. Amounts awarded under the above programs for the 2008 school year totaled \$2,080,179.

F. Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

The capital assets are recorded on the accompanying Statement of Net Assets at cost, net of accumulated depreciation of \$9,256. Depreciation is computed by the straight-line method three years for "Computers and Software".

The School has no other capital assets, as the School operates under a management agreement with WHLS. (See Note 8)

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.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets consist of capital assets, net of accumulated depreciation, and unrestricted net assets.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily State Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all School deposits was \$21,990. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, the School's bank balance of \$25,005 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

B. Investments

As of June 30, 2008, the School had the following investments and maturities:

| <u>Investment Type</u> | <u>Balance at Fair Value</u> | <u>Investment Maturities</u> | | |
|------------------------|----------------------------------|------------------------------|---------------------------|-----------------------------------|
| | | <u>6 months or less</u> | <u>7 to 12 months</u> | <u>Greater than 12 months</u> |
| STAROhio | \$245,554 | \$245,554 | \$ - | \$ - |

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAROhio an AAAM money market rating.

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2008:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Percent to Total</u> |
|------------------------|-------------------|-------------------------|
| STAROhio | \$245,554 | 100.00 |

4. STATE FUNDING PAYABLE

The School has recognized on its Statement of Net Assets a "State Funding Payable" for the amount of State Aid directly related to FTE, 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 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 actual FTE enrollment figure was calculated to be at year-end. At June 30, 2008, the amount of "State Funding Payable" was \$95,384.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

5. CONTINUING FEES RECEIVABLE

A "Continuing Fees Receivable" from WHLS has been recorded by the School in the amount of \$90,615 for 95 percent of the "State Funding Payable" due to the State for the FTE liability. (See Note 4)

6. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$66,053 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2008.

Additionally, under the terms of the management agreement (See Note 8), the School has recorded a liability to WHLS in the amount of \$91,418 for 100 percent of any State and Federal monies uncollected and/or unpaid to WHLS as of June 30, 2008.

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). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and a \$2,500 deductible.

8. AGREEMENT WITH WHLS

Effective November 1, 2005, the School entered into a multi-year Management Agreement (Agreement) with WHLS (through its subsidiary LS Middletown, LLC), which is an educational consulting and management company. The Agreement's term ran through June 30, 2007, was renewed for a one year term ending June 30, 2008, and will renew for additional one year terms ending on June 30, 2010 unless terminated for cause by either party. Substantially all functions of the School have been contracted to WHLS. WHLS is responsible and accountable to the School's Board of Directors for the administration and day-to-day operations. As part of the terms of this agreement, the "Continuing Fee" percentage of the School is 95 percent. "Continuing Fees" are defined in the Agreement as, "...the revenue per student received by the School from the State of Ohio Department of Education pursuant to Title 33 and other provisions of the Ohio Revised Code...". With regard to grant funding, the agreement reads as follows: "Federal Title Programs, lunch programs revenue, and other such federal, state and local government grant funding designated to compensate the school for the education of its students shall be fully paid to the Company." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues. As such, WHLS receives 95 percent of "State Aid" (See Note 2 E) and 100 percent of all other federal, state, and local grants. The School retains 5 percent of the "State Aid" as well as miscellaneous revenues generated from interest on deposits and donations.

The School had purchased service expenses for the year ended June 30, 2008, to WHLS of \$1,982,069, receivables of \$90,615, and payables to WHLS at June 30, 2008 aggregating to \$91,418. WHLS is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

9. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2008, White Hat Ventures, LLC and its affiliates incurred the following expenses on behalf of the School.

| | | <u>2008</u> |
|-----------------------------------|-----------|--------------------------------|
| Expenses | | |
| Direct Expenses: | | |
| Salaries & wages | \$ | 580,179 |
| Employees' benefits | | 159,661 |
| Professional & technical services | | 287,159 |
| Property services | | 238,888 |
| Travel | | 4,742 |
| Communications | | 15,968 |
| Utilities | | 40,864 |
| Books, periodicals, & films | | 1,399 |
| Other supplies | | 144,751 |
| Depreciation | | 19,774 |
| Other direct costs | | 52,151 |
| Indirect Expenses: | | |
| Overhead | | <u>407,300</u> |
| Total Expenses | \$ | <u><u>1,952,838</u></u> |

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

10. 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 MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System

Plan Description – 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 State Statute 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, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School rate is 14 percent 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$8,080, \$8,333, and \$18,868, respectively; of which 100 percent has been contributed.

B. State Teachers Retirement System

Plan Description – WHLS, on behalf of the School, contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is 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, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$61,958, \$61,681 and \$66,236 respectively, of which 100% has been contributed. Contributions to the DB and combined plans for fiscal year 2008 were \$64,982 made the school and \$47,660 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

11. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

Plan Description – WHLS, on behalf of the School, participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,136, \$5,121, and \$8,832 respectively, of which 100% has been contributed.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$582, \$515, and \$520 respectively, all of which has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – WHLS, on behalf of the School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$4,766, \$4,745, and \$5,095 respectively; all of which has been contributed for all fiscal years.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

12. CONTINGENCES

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 adjustments will not have a material adverse effect on the financial position of the School.

B. Pending Litigation

In October 2007, the School filed lawsuits against Integrated Consulting Management and Community Educational Partnerships for matters related to their contracts. Both organizations have in turn countersued the School. The effects of these lawsuits are presently not determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments as of June 30, 2008 are described in Note 4.

13. FEDERAL TAX STATUS

In August 2004 the School filed its application for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. In the interim, the School has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax".

14. SPONSORSHIP FEES

The School contracted with Saint Aloysius Orphanage as its sponsor effective July 1, 2005. The School pays the Sponsor one percent of the State Aid. Total fees for fiscal year 2008 were \$19,622. The contract is for five years ending on June 30, 2010. The Sponsor provides oversight, monitoring, and technical assistance for the School. At June 30, 2008, "Sponsor Fees Receivable" from SAO has been recorded by the School in the amount of \$1,108 for the net of one percent of the "State Funding Payable" due from the Sponsor for the FTE liability and overpayments made to the Sponsor in fiscal year 2007. (See Note 4)

15. RECEIVABLES/PAYABLES TO SCHOOLS

The School shares costs for certain professional services with other Hope Academies and Life Skills Centers. As of June 30, 2008, the School has \$71 due from other schools (receivable) and \$279 due to other schools (payable) for various payments made for these services.

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

16. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2008, the School's capital assets consisted of the following:

| | <u>Balance</u> <u>06/30/07</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>06/30/08</u> |
|--|-----------------------------------|-------------------|------------------|-----------------------------------|
| Capital Assets Being Depreciated | | | | |
| Computers and Software | \$ 14,520 | | \$ - | \$ 14,520 |
| Less: Accumulated Depreciation | <u>(4,416)</u> | <u>(4,840)</u> | - | <u>(9,256)</u> |
| Total Capital Assets Being Depreciated, Net | <u>\$ 10,104</u> | <u>\$ (4,840)</u> | <u>\$ -</u> | <u>\$ 5,264</u> |

17. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2008, the School has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 established uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the School; however, certain disclosures related to postemployment benefits (Note 11) have been modified to conform to the new reporting requirements.

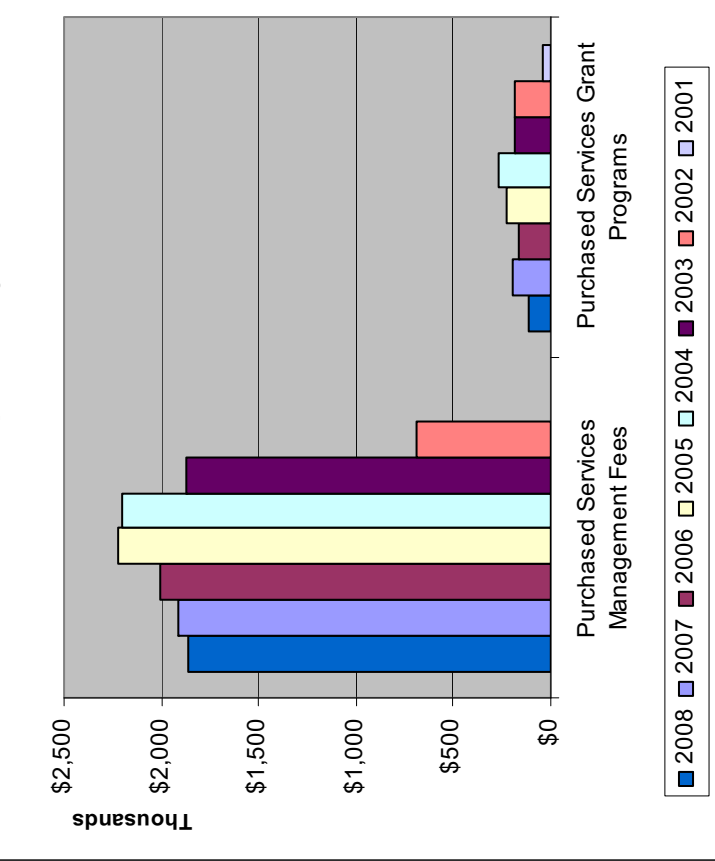
GASB Statement No. 50 established standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the School.

Statistical Section

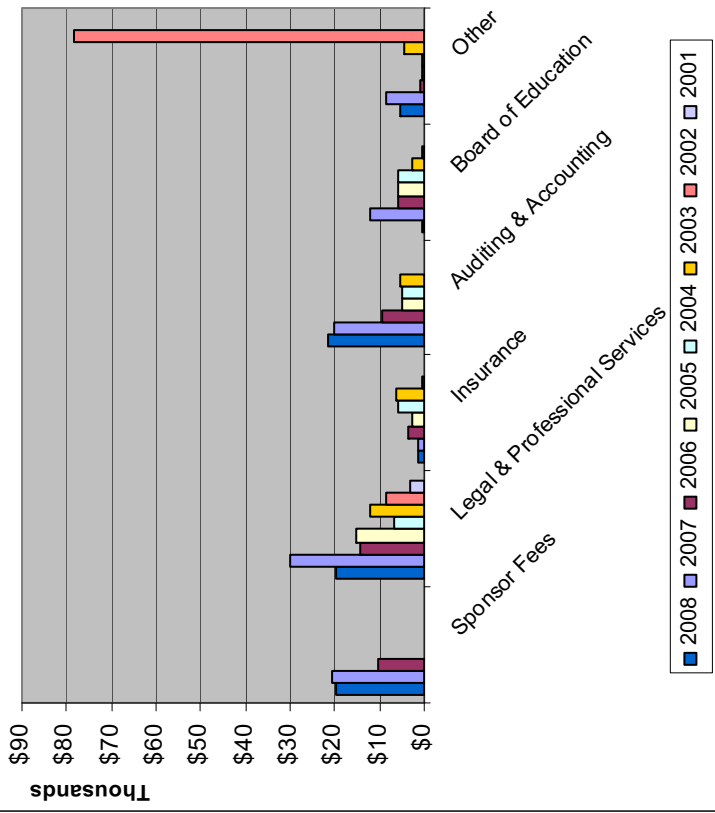
**Life Skills Center of Middletown
Operating Expenses by Category
Last Eight Fiscal Years**

| Year | Purchased Services Management Fees | Purchased Services Grant Programs | Sponsor Fees | Legal & Professional Services | Insurance | Auditing & Accounting | Board of Education | Other | Total | Enrollment | Per Pupil Expenditure |
|------|------------------------------------|-----------------------------------|--------------|-------------------------------|-----------|-----------------------|--------------------|----------|-------------|------------|-----------------------|
| 2008 | \$ 1,864,095 | \$ 117,974 | \$19,622 | \$ 19,542 | \$ 1,390 | \$ 21,654 | \$ 582 | \$ 5,542 | \$2,050,401 | 280 | \$ 7,323 |
| 2007 | \$ 1,912,774 | \$ 195,769 | \$20,488 | \$ 30,213 | \$ 1,390 | \$ 20,265 | \$ 11,996 | \$ 8,361 | \$2,201,256 | 283 | \$ 7,778 |
| 2006 | \$ 2,004,354 | \$ 166,945 | \$10,200 | \$ 14,171 | \$ 3,503 | \$ 9,239 | \$ 5,851 | \$ 1,078 | \$2,215,341 | 304 | \$ 7,287 |
| 2005 | \$ 2,217,971 | \$ 226,213 | \$ - | \$ 15,440 | \$ 2,552 | \$ 5,124 | \$ 5,796 | \$ 436 | \$2,473,532 | 321 | \$ 7,706 |
| 2004 | \$ 2,205,411 | \$ 265,017 | \$ - | \$ 6,849 | \$ 5,692 | \$ 5,145 | \$ 5,671 | \$ 499 | \$2,494,284 | 354 | \$ 7,046 |
| 2003 | \$ 1,867,339 | \$ 181,070 | \$ - | \$ 11,916 | \$ 6,300 | \$ 5,500 | \$ 2,563 | \$ 4,309 | \$2,078,997 | 307 | \$ 6,772 |
| 2002 | \$ 688,178 | \$ 186,765 | \$ - | \$ 8,473 | \$ 593 | \$ - | \$ 240 | \$78,418 | \$ 962,667 | 144 | \$ 6,685 |
| 2001 | \$ - | \$ 45,001 | \$ - | \$ 3,274 | \$ 188 | \$ - | \$ - | \$ 76 | \$ 48,539 | N/A | N/A |

Purchased Services Expenses By Fiscal Year



Other Operating Expenses by Fiscal Year



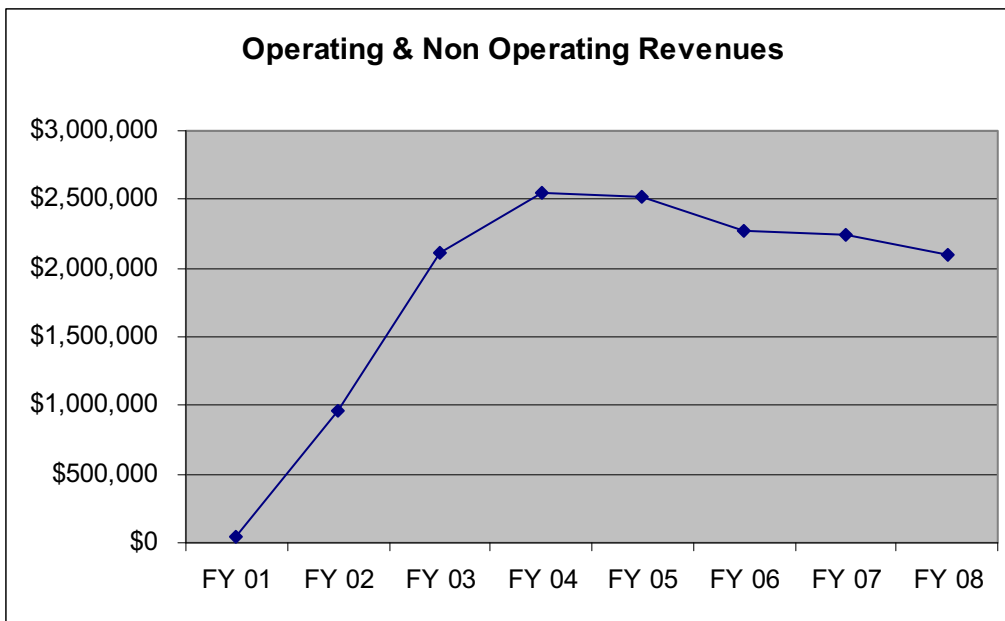
Note 1: On June 20, 2002, the School amended its management agreement with WHLS so that all facility costs would be paid by the management company in exchange for a higher management fee.

Note 2: The School began enrolling students in FY 02.

Source: School Financial Records

Life Skills Center of Middletown
 Operating and Non-Operating Revenues
 Last Eight Fiscal Years

| <u>Year</u> | <u>State Aid</u> | <u>Grants</u> | <u>Other</u> | <u>Total</u> |
|-------------|------------------|---------------|--------------|--------------------|
| 2008 | \$1,962,206 | \$117,973 | \$12,187 | \$2,092,366 |
| 2007 | \$2,013,446 | \$210,288 | \$12,432 | \$2,236,166 |
| 2006 | \$2,096,605 | \$166,945 | \$ 7,095 | \$2,270,645 |
| 2005 | \$2,286,563 | \$226,213 | \$ 2,859 | \$2,515,635 |
| 2004 | \$2,276,181 | \$265,017 | \$ 1,047 | \$2,542,245 |
| 2003 | \$1,925,091 | \$181,070 | \$ - | \$2,106,161 |
| 2002 | \$ 780,215 | \$186,765 | \$ - | \$ 966,980 |
| 2001 | \$ - | \$ 50,000 | \$ - | \$ 50,000 |

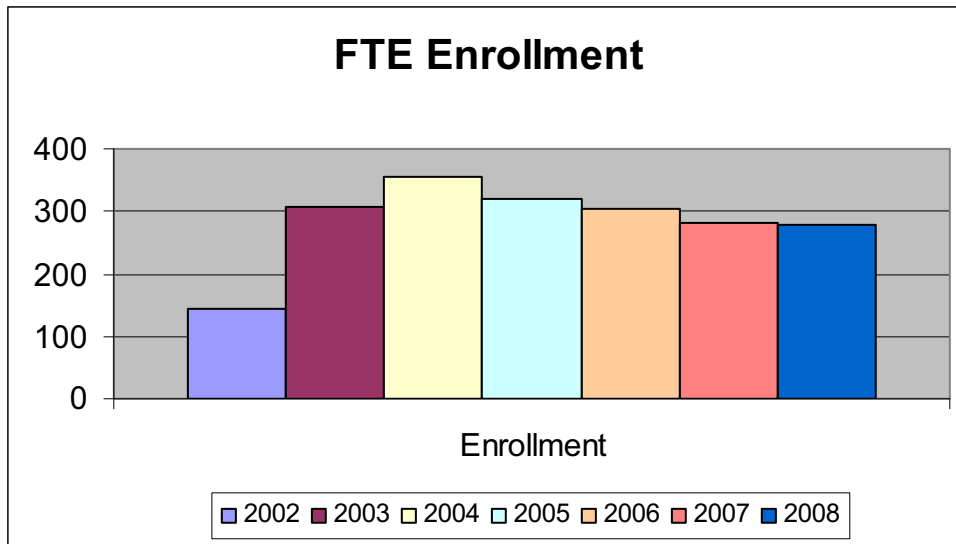


Note: The School began enrolling students in FY 02.

Source: School Financial Records

Life Skills Center of Middletown
Full-Time Equivalent (FTE) Enrollment
Last Seven Fiscal Years

| <u>Year</u> | <u>Enrollment</u> |
|-------------|-------------------|
| 2008 | 280 |
| 2007 | 283 |
| 2006 | 304 |
| 2005 | 321 |
| 2004 | 354 |
| 2003 | 307 |
| 2002 | 144 |



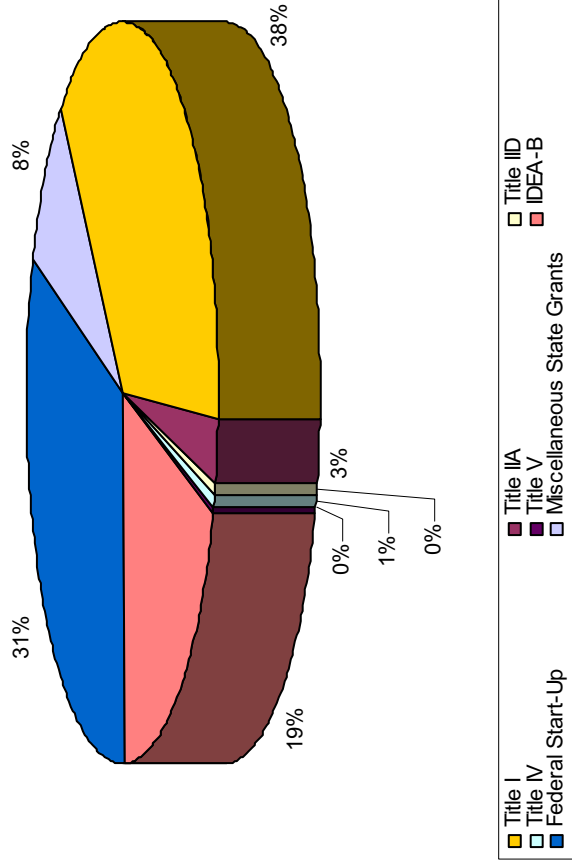
Note: The School began enrolling students in FY 02.

Source: School Financial Records

Life Skills Center of Middletown
 Grant Revenues by Source
 Last Eight Fiscal Years

| Year | Title I | Title IIA | Title IID | Title IV | Title V | IDEA-B | Federal Start-Up | Miscellaneous State Grants | Total |
|------|-----------|-----------|-----------|----------|---------|----------|------------------|----------------------------|-----------|
| 2008 | \$ 40,410 | \$6,302 | \$ 846 | \$1,671 | \$ 440 | \$61,414 | \$ - | \$ 6,890 | \$117,974 |
| 2007 | \$140,431 | \$6,788 | \$ 941 | \$1,008 | \$ 302 | \$45,911 | \$ - | \$ 14,908 | \$210,289 |
| 2006 | \$ 90,325 | \$4,637 | \$ 734 | \$2,357 | \$ 468 | \$59,349 | \$ - | \$ 9,075 | \$166,945 |
| 2005 | \$134,697 | \$6,912 | \$2,252 | \$1,340 | \$1,854 | \$65,900 | \$ - | \$ 13,292 | \$226,213 |
| 2004 | \$ 59,316 | \$5,044 | \$1,606 | \$1,143 | \$ 598 | \$33,876 | \$150,000 | \$ 12,178 | \$265,017 |
| 2003 | \$ 15,334 | \$6,717 | \$ 454 | \$ 500 | \$ 566 | \$ 1,165 | \$150,000 | \$ 6,302 | \$181,070 |
| 2002 | \$ 15,300 | \$1,405 | \$ - | \$ - | \$ - | \$13,818 | \$150,000 | \$ 5,676 | \$186,765 |
| 2001 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 50,000 | \$ 50,000 |

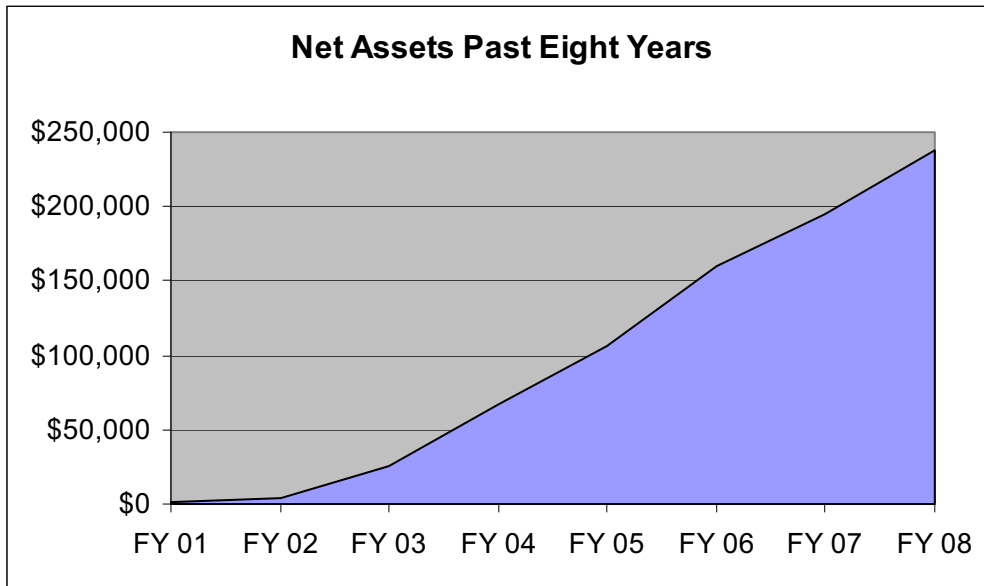
Grant Revenues By Source All Years Combined



Note: The School began enrolling students in FY 02.
 Source: School Financial Records

Life Skills Center of Middletown
Net Assets
Last Eight Fiscal Years

| <u>Year</u> | <u>Invested in Capital Assets</u> | <u>Unrestricted</u> | <u>Total</u> | <u>Change in Net Assets</u> |
|-------------|---|---------------------|--------------|-------------------------------------|
| 2008 | \$ 5,264 | \$ 232,223 | \$237,487 | \$ 41,965 |
| 2007 | \$ 10,104 | \$ 185,418 | \$195,522 | \$ 34,910 |
| 2006 | \$ - | \$ 160,612 | \$160,612 | \$ 54,821 |
| 2005 | \$ - | \$ 105,791 | \$105,791 | \$ 38,503 |
| 2004 | \$ - | \$ 67,288 | \$ 67,288 | \$ 41,289 |
| 2003 | \$ - | \$ 25,999 | \$ 25,999 | \$ 22,064 |
| 2002 | \$ - | \$ 3,935 | \$ 3,935 | \$ 2,474 |
| 2001 | \$ - | \$ 1,461 | \$ 1,461 | \$ 1,461 |

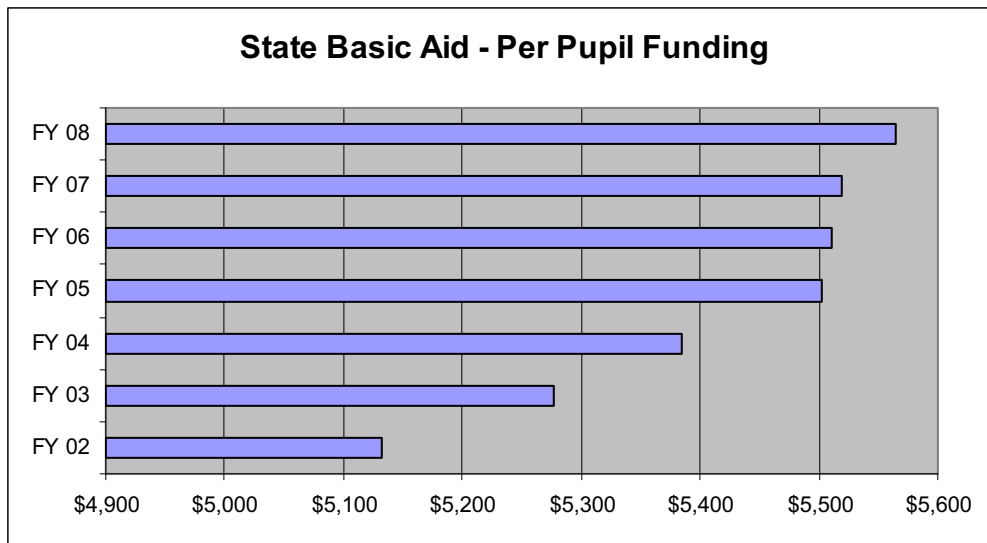


Note: The School began enrolling students in FY 02.

Source: School Financial Records

Life Skills Center of Middletown
 State Basic Aid – Per Pupil Funding Amount
 Last Seven Fiscal Years

| Year | Per Pupil Funding | Cost of Doing Business | Total Per Pupil |
|------|-------------------|------------------------|-----------------|
| 2008 | \$ 5,565 | N/A | \$ 5,565 |
| 2007 | \$ 5,403 | 1.0215 | \$ 5,519 |
| 2006 | \$ 5,283 | 1.0431 | \$ 5,511 |
| 2005 | \$ 5,169 | 1.0646 | \$ 5,503 |
| 2004 | \$ 5,058 | 1.0646 | \$ 5,385 |
| 2003 | \$ 4,949 | 1.0663 | \$ 5,277 |
| 2002 | \$ 4,814 | 1.0663 | \$ 5,133 |



Note 1: In addition to the above, the School also receives other sources of State Aid including (but not limited to) Career Based Intervention Funding, Disadvantaged Pupil Impact, Parity Aid, and Special Education funding. The revenues have collectively been identified on the Statement of Revenues, Expenses, and Changes in Net Assets as “State Aid”.

The Cost of Doing Business Factors are determined by the State of Ohio and vary by region.

Note 2: The School began enrolling students in FY 02.

Note 3: The Ohio Department of Education eliminated the cost of doing business factor in fiscal year 2008.

Source: Ohio Department of Education

Life Skills Center of Middletown
Student Population by Resident District
2008 Fiscal Year

| <u>Resident District</u> | <u>%</u> |
|--------------------------|----------|
| Carlisle | 5.85% |
| Edgewood | 3.17% |
| Franklin | 3.33% |
| Hamilton | 1.73% |
| Lakota | 3.74% |
| Lebanon | 1.70% |
| Madison | 4.92% |
| Middletown | 63.09% |
| Monroe | 4.84% |
| Preble Shawnee | 2.67% |
| Valley View | 1.38% |
| All Other Districts | 3.58% |

Note 1: The School has open enrollment and draws its population from a large surrounding area. The traditional school district that the student resides in is referred to as the Resident District.

Note 2: Districts representing less than 1 percent of the student population are combined under the heading "All Other Districts".

Source: Ohio Department of Education

Life Skills Center of Middletown
Miscellaneous Statistics

School Address: 631 South Breiel Boulevard
Middletown, Ohio 45042

Square Footage: 13,182 sq. ft.

Date of Incorporation: 10/23/2000

Instructional Staff: 13

Total FY 08 Staff: 14



Note: All Staff are employees of WHLS of Ohio, LLC. See Note 8 in Notes to the Basic Financial Statements.

**Instructional Staff/
Student Ratio:** 22:1

**Number of Graduates
since inception:** 540

**Percent of Low
Income Students:** 61.01%

Source: School Records



Mary Taylor, CPA
Auditor of State

**LIFE SKILLS CENTER OF MIDDLETOWN
BUTLER 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 14, 2009**