



Dave Yost • Auditor of State

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Life Skills Center of Dayton
Montgomery County
1721 North Main Street
Dayton, Ohio 45405

To the Board of Directors:

We have audited the accompanying financial statements of Life Skills Center of Dayton, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2012, 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life Skills Center of Dayton, Montgomery County, Ohio, as of June 30, 2012, and the changes in 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 20, 2013 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

May 20, 2013

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

The discussion and analysis of the Life Skills Center of Dayton's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the financial statements and the notes to the 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 \$63,699, which represents a 21.8 percent increase from 2011. This increase is mainly due to an increase in cash and cash equivalents, and grants funding receivable; as well as a decrease in grants funding payable.
- Total assets increased \$50,722, which represents a 5.5 percent increase from 2011. This increase is related to an increase in cash and cash equivalents. During 2012, there was a decrease in the School's receivable from other schools from 2011, which caused cash and cash equivalents to increase.
- Liabilities decreased \$12,977, which represents a 2.1 percent decrease from 2011. This was primarily due to the decrease in grants funding payable and state funding payable.

Using this Financial Report

This report consists of three parts, the MD&A, the financial statements, and notes to the financial statements. The financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School performed financially during 2012. This statement includes all assets, liabilities, and net assets, both financial and capital, and current and long-term, using the accrual basis of accounting, which is 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.

Table 1 provides a summary of the School's net assets for fiscal year 2012 and fiscal year 2011.

(Table 1)
Statement of Net Assets

| | 2012 | 2011 |
|----------------------------|------------|------------|
| Assets | | |
| Current assets | \$ 954,574 | \$ 888,107 |
| Capital assets, net | 18,648 | 34,393 |
| Total assets | \$ 973,222 | \$ 922,500 |
| Liabilities | | |
| Current liabilities | \$ 616,665 | \$ 629,642 |
| Net assets | | |
| Invested in capital assets | \$ 18,648 | \$ 34,393 |
| Unrestricted | 337,909 | 258,465 |
| Total net assets | \$ 356,557 | \$ 292,858 |

Total assets increased by \$50,722 from 2011. This increase is directly related to the decrease in capital assets, receivables from other schools offset by an increase in cash and cash equivalents due to the collection of the receivables from other schools. Liabilities decreased by \$12,977 from 2011. This decrease is related to the School's decrease in state funding payable and grants funding payable. The School operates under a management agreement with LS Dayton, LLC; under the terms of the management agreement, LS Dayton, LLC is paid a specific percentage of the state and federal revenues the School receives (see notes to the financial statements, note 13).

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

Statement of Revenues, Expenses, and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal year 2012 and fiscal year 2011, as well as a listing of revenues and expenses.

(Table 2)

Change in Net Assets

| | 2012 | 2011 |
|-------------------------------------|--------------|--------------|
| Operating revenues | | |
| State aid | \$ 2,118,953 | \$ 2,154,033 |
| Other schools | 1,910,010 | 971,713 |
| Non-operating revenues | | |
| Grants | 426,942 | 766,005 |
| Miscellaneous | 2,342 | - |
| Interest Income | 68 | 365 |
| Total revenues | 4,458,315 | 3,892,116 |
| Operating expenses | | |
| Purchased services: management fees | 2,002,411 | 2,035,562 |
| Purchased services: grant programs | 411,574 | 766,005 |
| Sponsorship fees | 63,680 | 64,621 |
| Employment expenses | 1,858,019 | 1,026,382 |
| Board of education | 3,686 | 6,713 |
| Legal | 4,700 | 3,103 |
| Advertising | 734 | 616 |
| Auditing and accounting | 11,398 | 8,320 |
| Insurance | 6,659 | 6,659 |
| Depreciation | 31,113 | 29,576 |
| Miscellaneous | 642 | 854 |
| Total operating expenses | 4,394,616 | 3,948,411 |
| Change in net assets | \$ 63,699 | \$ (56,295) |

State aid revenues decreased 1.6 percent in 2012 due to a decrease in enrollment. The School's most significant expense, "Purchased services: management fees" decreased 1.6 percent, which is due directly to the decrease in state aid received. "Purchased services: grant programs" decreased because of the decrease in grant funding for the year and due to the management agreement in place during the year. The agreement provides that specific percentages of the revenues received by the School will be paid to LS Dayton, LLC to fund operations.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

Capital Assets

At the end of fiscal year 2012 the School had \$18,648 in equipment. Table 3 shows the balance for fiscal year 2012, in comparison to the balance for fiscal year 2011.

(Table 3)

Capital Assets (Net of Depreciation)

| | <u>2012</u> | <u>2011</u> |
|-----------|-------------|-------------|
| Equipment | \$ 18,648 | \$ 34,393 |

For more information on capital assets, see note 10 in the notes to the financial statements.

Current Financial Issues

The Life Skills Center of Dayton received revenue for 261 students in 2012 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 \$8,119 in fiscal year 2012. The School also receives revenues from grant subsidies.

Although there is a continuing possibility that state aid will be cut in future years due to the economic climate, the School feels that the relationship with the management company will insulate them from any significant change. The relationship brings stability to the School since specific percentages of revenues are payable to the management company (see notes to the financial statements, note 13).

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 the Fiscal Officer for the Life Skills Center of Dayton, 121 South Main Street, Suite 200, Akron, Ohio 44308.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012**

ASSETS

Current assets

| | |
|-------------------------------|------------|
| Cash and cash equivalents | \$ 542,384 |
| Accounts receivable | 30,992 |
| State funding receivable | 25,025 |
| Grants funding receivable | 259,003 |
| Continuing fees receivable | 58,638 |
| Receivable from other schools | 38,532 |
| | <hr/> |

Total current assets 954,574

Noncurrent assets

| | |
|---------------------|--------|
| Capital assets, net | 18,648 |
| | <hr/> |

Total assets **\$ 973,222**

LIABILITIES

Current liabilities

| | |
|--------------------------|----------|
| Accounts payable | \$ 3,142 |
| Accrued expenses | 314,795 |
| Continuing fees payable | 25,699 |
| Sponsorship fees payable | 815 |
| Grants funding payable | 272,214 |
| | <hr/> |

Total liabilities **\$ 616,665**

NET ASSETS

| | |
|----------------------------|-----------|
| Invested in capital assets | \$ 18,648 |
| Unrestricted net assets | 337,909 |
| | <hr/> |

Total net assets **\$ 356,557**

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

LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUES

| | |
|---------------------------------|------------------|
| State aid | \$ 2,118,953 |
| Other schools | 1,910,010 |
| Total operating revenues | 4,028,963 |

OPERATING EXPENSES

| | |
|-------------------------------------|------------------|
| Purchased services: management fees | 2,002,411 |
| Purchased services: grant programs | 411,574 |
| Sponsorship fees | 63,680 |
| Employment expenses | 1,858,019 |
| Board of education | 3,686 |
| Legal | 4,700 |
| Advertising | 734 |
| Auditing and accounting | 11,398 |
| Insurance | 6,659 |
| Depreciation | 31,113 |
| Miscellaneous | 642 |
| Total operating expenses | 4,394,616 |
| Operating loss | (365,653) |

NON-OPERATING REVENUES

| | |
|-------------------------------------|-------------------|
| Grants | 426,942 |
| Miscellaneous | 2,342 |
| Interest | 68 |
| Total non-operating revenues | 429,352 |
| Change in net assets | 63,699 |
| Net assets, July 1, 2011 | 292,858 |
| Net assets, June 30, 2012 | \$ 356,557 |

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

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------|
| Cash received from state aid and other schools | \$ 4,205,718 |
| Cash payments to suppliers for goods and services | (4,426,741) |
| Net cash used for operating activities | (221,023) |

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

| | |
|--|----------|
| Cash payments for capital acquisitions | (15,368) |
|--|----------|

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|---------|
| Cash received from grant programs | 392,395 |
| Cash received from other sources | 2,342 |
| Net cash received from noncapital financing activities | 394,737 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|------------|
| Cash received from interest income | 68 |
| Net increase in cash and cash equivalents | 158,414 |
| Cash and cash equivalents at beginning of year | 383,970 |
| Cash and cash equivalents at end of year | \$ 542,384 |

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

| | |
|----------------|--------------|
| Operating loss | \$ (365,653) |
|----------------|--------------|

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

| | |
|--|--------------|
| Depreciation | 31,113 |
| Changes in assets and liabilities: | |
| Accounts receivable | (30,992) |
| State funding receivable | (25,025) |
| Continuing fees receivable | (39,801) |
| Sponsorship fees receivable | 598 |
| Receivable from other schools | 221,714 |
| Accounts payable | 2,527 |
| Accrued expense | 16,954 |
| State funding payable | (19,934) |
| Sponsorship fees payable | 815 |
| Continuing fees payable | 25,699 |
| Grants funding payable | (39,038) |
| Total adjustments | 144,630 |
| Net cash used for operating activities | \$ (221,023) |

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

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Life Skills Center of Dayton (the School) is a federal 501(c)(3) tax exempt, 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 Dayton, LLC for most of its functions (see note 13).

The School signed a contract with St. Aloysius (Sponsor) to operate for a period from July 1, 2009 through June 30, 2014. 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 has one instructional/support facility, which is leased by LS Dayton, LLC. The facility is staffed with teaching personnel employed by LS Dayton, LLC, who provide services to 261 students.

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 (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 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.

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 total net 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.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012. 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 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 2012, 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, 2012.

E. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation 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 2012 school year totaled \$4,455,905.

F. 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.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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, at \$18,648. Depreciation is computed by the straight-line method over five years for "equipment".

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with LS Dayton, LLC (see note 13).

H. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets consist of unrestricted net assets and invested in capital 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.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all School deposits was \$368,968. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, none of the School's bank balance of \$372,270 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository 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% 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, 2012, 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 24 months</u> |
| STAROhio | \$ 173,416 | \$ 173,416 | \$ - | \$ - |

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

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, 2012:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% to Total</u> |
|------------------------|-------------------|-------------------|
| STAROhio | \$ 173,416 | 100.00 |

4. ACCOUNTS RECEIVABLE

A receivable has been recorded in the amount of \$30,992 for administrative expenses paid by the School that are to be reimbursed by LS Dayton, LLC.

5. RECEIVABLE FROM OTHER SCHOOLS

A receivable has been recorded by the School in the amount of \$38,532 for reimbursement of expenses accrued at June 30, 2012 for the School's employees that are being leased to other schools through the Education Jobs Fund Program.

6. STATE FUNDING RECEIVABLE

The School has recognized on its Statement of Net Assets a "State funding receivable" for the amount of state aid directly related to student full-time equivalent (FTE), estimated to be paid to the School from 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 receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. At June 30, 2012, the amount of "State funding receivable" was \$25,025.

7. ACCRUED EXPENSE

Accrued expenses have been recorded by the School in the amount of \$314,795 for any expenses accrued by June 30 that are related to the School's employees that are being leased to other schools through the Education Jobs Fund Program

Included in this balance were amounts relating to STRS and SERS payments. During 2011 and 2012, the School, as part of the Ed Job program with other community schools, received or incurred \$269,627 in STRS and \$39,226 in SERS related expenditures for employees covered under the Ed Job program. The School was unable to remit the employer portion of STRS and SERS because the amounts were already withheld from continuing fees received by the program participants and remitted by the program participants and remitted directly to STRS and SERS by the State. As such, these amounts were deducted from management fees remitted to the applicable EMO entity that contracts with the program participants. At June 30, 2012, the School has recorded an accrued liability totaling \$308,853.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

8. CONTINUING FEES PAYABLE/RECEIVABLE

A "Continuing fees payable" to LS Dayton, LLC has been recorded by the School in the amount of \$23,649 which includes 94.5 percent due from the State for the FTE liability (see note 6) and \$2,038 for additional state funding that the School received during the school year yet to be paid to LS Dayton, LLC. Also included in the payable is \$12 that the School is liable for due to an underpayment of management fees in January.

A "Continuing fees receivable" from LS Dayton, LLC has been recorded in the amount of \$58,638 for an overpayment of STRS and SERS during the current fiscal year and the end of the prior fiscal year.

9. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants funding receivable" in the amount of \$259,003 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2012.

Under the terms of the management agreement (see note 13), the School has recorded a liability to LS Dayton, LLC in the amount of \$272,214 for 100 percent of any State and Federal monies uncollected or unpaid to LS Dayton, LLC as of June 30, 2012.

10. SPONSORSHIP FEES PAYABLE

A "Sponsorship Fees Payable" to the Sponsor has been recorded by the School in the amount of \$751, which is three percent (3%) of the "State funding receivable" due from the State for the FTE liability (see note 6) as well as \$64 for three percent (3%) of the additional state funding that the School received during the year that had yet to be paid to the Sponsor.

11. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2012, the School's capital assets consisted of the following:

| | <u>Balance 06/30/11</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 06/30/12</u> |
|--|-----------------------------|------------------------|------------------|-----------------------------|
| Capital Assets | | | | |
| Being Depreciated: | | | | |
| Equipment | \$ 147,879 | \$ 15,368 | \$ - | \$ 163,247 |
| Less Accumulated Depreciation: | | | | |
| Equipment | <u>(113,486)</u> | <u>(31,113)</u> | <u>-</u> | <u>(144,599)</u> |
| Total Capital Assets Being Depreciated, Net | <u>\$ 34,393</u> | <u>\$ (15,745)</u> | <u>\$ -</u> | <u>\$ 18,648</u> |

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

12. 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 LS Dayton, LLC, LS Dayton, LLC has contracted with an insurance company for property and general liability insurance pursuant to the management agreement (see note 13). 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 \$2,000,000 aggregate limit and a \$5,000 deductible.

13. AGREEMENT WITH LS DAYTON, LLC

Effective December 12, 2008, the School entered into an extended five year management agreement (Agreement) with LS Dayton, LLC, which is an educational consulting and management company. The Agreement's term will renew for additional, successive five (5) year terms unless one party notifies the other party on or before February 1st prior to the expiration of the then-current term of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to LS Dayton, LLC. LS Dayton, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay LS Dayton, LLC a monthly continuing fee of 94.5 percent of the School's "Qualified Gross Revenues", defined as all revenues and income received by the School except for charitable contributions. Also LS Dayton, LLC shall receive 100 percent of any and all grants or funding of any kind generated by LS Dayton, LLC, 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. This continuing fee is paid to LS Dayton, LLC based on the qualified gross revenues.

In November of 2010, an amendment to the management agreement was made allowing the School Board to employ school level personnel. "Both parties agree that this amendment is only in effect for the term of the Education Jobs Fund Program funding." Both parties also agree that at the end of the Ed Jobs funding "this Amendment will terminate."

The School had purchased service expenses for the year ended June 30, 2012, of \$2,413,985, of which \$297,913 was payable to LS Dayton, LLC as of June 30, 2012. LS Dayton, LLC will be 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.

14. SPONSORSHIP FEES

The contract with Sponsor states that the School shall pay to the Sponsor the amount of three percent (3%) of the total state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Sponsor. Such fees are paid to the Sponsor monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Assets, the School incurred \$63,680 in sponsorship fees to St. Aloysius.

**LIFE SKILLS CENTER OF DAYTON
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

15. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2012, LS Dayton, LLC and its affiliates incurred the following expenses on behalf of the School.

| | 2012 |
|-------------------------------------|---------------------|
| Expenses | |
| Direct Expenses: | |
| Salaries and wages | \$ 555,381 |
| Employees' benefits | 174,590 |
| Professional and technical services | 302,438 |
| Property services | 258,758 |
| Travel | 776 |
| Communications | 17,768 |
| Utilities | 32,790 |
| Food and Related Supplies | 39,314 |
| Other supplies | 115,784 |
| Depreciation | 42,409 |
| Other direct costs | 90,837 |
| Indirect Expenses: | |
| Overhead | 484,359 |
| Total Expenses | \$ 2,115,204 |

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.

16. DEFINED BENEFIT PENSION PLANS

The School has contracted with LS Dayton, LLC 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 13):

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

Plan Description – LS Dayton, LLC, 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, disability, and survivor 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 per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/ Audit Resources.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

(Continued)

16. DEFINED BENEFIT PENSION PLANS (Continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and LS Dayton, LLC, on behalf of the School, is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the years ended June 30, 2012, 2011, and 2010, were \$4,286, \$7,755 and \$13,577, respectively, which equaled the required contributions each year.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description- LS Dayton, LLC, 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 plan. 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 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 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. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**LIFE SKILLS CENTER OF DAYTON
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

16. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

Funding Policy- For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. LS Dayton, LLC on behalf of the School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, 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 contributions for pension obligations to STRS Ohio for fiscal years ended June 30, 2012, 2011, and 2010, were \$67,792, \$77,594, and \$90,140, respectively; of which 100 percent has been contributed. Contributions to the DC and Combined Plans for fiscal year 2012 were \$10,065 made by the School and \$7,189 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. The contribution rate is 6.2 percent of wages. As of June 30, 2012, there were no members that elected Social Security.

17. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

Postemployment Benefits - In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75 percent. LS Dayton, LLC's contributions on behalf of the School for the years ended June 30, 2012, 2011, and 2010, were \$253, \$499, and \$807, respectively, which equaled the required contributions each year.

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MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

17. POSTEMPLOYMENT BENEFITS (Continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (Continued)

Health Care Plan- ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. LS Dayton, LLC's contributions on behalf of the School assigned to health care for the years ended June 30, 2012, 2011, and 2010, were \$861, \$1,931, and \$2,093, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

B. STATE TEACHERS RETIREMENT SYSTEM

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan Description – LS Dayton, LLC, 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.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

17. POSTEMPLOYMENT BENEFITS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

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 2012, 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, 2012, 2011, and 2010, were \$5,212, \$5,969, and \$6,934, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

18. CONTINGENCIES

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.



Dave Yost • 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 Dayton
Montgomery County
1721 North Main Street
Dayton, Ohio 45405
To the Board of Directors:

We have audited the financial statements of Life Skills of Dayton, Montgomery County, Ohio (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated May 20, 2013. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 a certain matter not requiring inclusion in this report that we reported to the School's Management in a separate letter dated May 20, 2013,

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 20, 2013



Dave Yost • Auditor of State

LIFE SKILLS CENTER OF DAYTON

MONTGOMERY 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 18, 2013**