



Dave Yost · Auditor of State

**LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Life Skills of Canton
Stark County
1100 Cleveland Avenue
Canton, Ohio 44702

To the Board of Directors:

We have audited the accompanying financial statements of Life Skills of Canton, Stark 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life Skills of Canton, Stark 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 April 22, 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.

Life Skills of Canton
Stark County
Independent Accountants' Report
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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.



Dave Yost
Auditor of State

April 22, 2013

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

The discussion and analysis of the Life Skills Center of Canton'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 fiscal year 2011, The Life Skills Center of Canton operated under the name "Brighten Heights Charter School of Canton". On February 21, 2012, the School formally changed their name to "The Life Skills Center of Canton".
- In total, net assets decreased by \$31,988 which represents a 19.8 percent decrease from 2011. This was due to the decrease in the School's funding, which resulted from a decrease in students.
- Total assets decreased by \$18,638 which represents a 4.8 percent decrease from 2011. The decrease was mainly a result of a decrease in the School's cash and cash equivalents, which was due to receiving less funding. As previously stated, the decrease in funding was due to there being fewer students in attendance during fiscal 2012.
- Liabilities increased by \$13,350, which represents a 5.9 percent increase from 2011. This increase in liabilities was a result of an increase in 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.

**THE LIFE SKILLS CENTER OF CANTON
STARK 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 expended.

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

(Table 1)
Statement of Net Assets

	<u>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 364,639	\$ 388,371
Capital assets, net	5,094	-
Total assets	<u>\$ 369,733</u>	<u>\$ 388,371</u>
Liabilities		
Current liabilities	<u>\$ 240,445</u>	<u>\$ 227,095</u>
Net assets		
Invested in capital assets	\$ 5,094	\$ -
Unrestricted	124,194	161,276
Total net assets	<u>\$ 129,288</u>	<u>\$ 161,276</u>

Total assets decreased by \$18,638 from 2011. This decrease was mainly a result of the decrease in funding due to a decrease in students. The School operates under a management agreement with LS Canton, LLC. Under the terms of the management agreement, LS Canton, LLC is paid a specific percentage of the state and federal revenues the School receives (see notes to the financial statements, note 10). Liabilities increased \$13,350 from 2011. The increase in liabilities is a result of the increase state funding payable.

**THE LIFE SKILLS CENTER OF CANTON
STARK 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 years 2012 and 2011, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	<u>2012</u>	<u>2011</u>
Operating Revenue		
State aid	\$ 992,547	\$ 2,779,646
Non-operating revenues		
Grants	234,932	768,497
Miscellaneous	1,156	-
Interest	91	247
Total revenues	1,228,726	3,548,390
Operating expenses		
Purchased services: management fees	945,231	2,640,664
Purchased services: grant programs	234,932	766,898
Sponsorship fees	18,927	56,517
Board of education	39,247	82,494
Legal	10,559	12,199
Advertising	644	922
Auditing and accounting	10,246	6,099
Insurance	300	600
Depreciation	364	-
Miscellaneous	264	213
Total expenses	1,260,714	3,566,606
Change in net assets	<u>\$ (31,988)</u>	<u>\$ (18,216)</u>

The primary reason for the decrease in overall revenues from 2011 was the decrease in students from 384 in fiscal year 2011 to 117 in fiscal year 2012. The School's most significant expenses, "Purchased services: management fees" decreased as well because of the management agreement in place between the School and LS Canton, LLC. The agreement provides that specific percentages of the revenues received by the School will be paid to LS Canton, LLC to fund operations (see notes to the financial statements, note 10).

**THE LIFE SKILLS CENTER OF CANTON
STARK 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 \$5,094 invested in capital assets. Table 3 shows the balance for fiscal year 2012. There were no capital assets in fiscal 2011.

(Table 3)
Capital Assets (Net of Depreciation)

	2012
Equipment	<u>\$ 5,094</u>

For more information on capital assets, see note 8 in the notes to the financial statements.

Current Financial Issues

The Life Skills Center of Canton received revenue for 117 students in 2012 (a decrease from 2011 of 267) 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 \$8,483 in fiscal year 2012. The School receives additional revenues from grant subsidies.

Although there is a 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 10).

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 Canton, 121 South Main Street, Ste. 200, Akron, Ohio 44308.

THE LIFE SKILLS CENTER OF CANTON STARK COUNTY

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012**

ASSETS

Current assets	
Cash and cash equivalents	\$ 199,748
Continuing fees receivable	97,230
Sponsorship fees receivable	1,074
Grants funding receivable	<u>66,587</u>
 Total current assets	364,639

Total current assets 364,639

Noncurrent assets

Capital assets, net 5,094

Total assets

\$ 369,733

LIABILITIES

Current liabilities

Accounts payable	\$ 7,436
Sponsorship fees payable	57
Grants funding payable	130,821
State funding payable	95,618
Continuing fees payable	6,513

Total liabilities € 240,445

NET ASSETS

Invested in capital assets	\$ 5,094
Unrestricted	124,194
Total net assets	\$ 129,288

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

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

OPERATING REVENUE

State aid	\$ <u>992,547</u>
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OPERATING EXPENSES

Purchased services: management fees	945,231
Purchased services: grant programs	234,932
Sponsorship fees	18,927
Legal	10,559
Advertising	644
Insurance	300
Auditing and accounting	10,246
Board of education	39,247
Depreciation	364
Miscellaneous	264
Total operating expenses	<u>1,260,714</u>
Operating loss	<u>(268,167)</u>

NON-OPERATING REVENUES

Grants	234,932
Miscellaneous	1,156
Interest	91
Total non-operating revenues	<u>236,179</u>
Change in net assets	<u>(31,988)</u>
Net assets, July 1, 2011	<u>161,276</u>
Net assets, June 30, 2012	<u>\$ 129,288</u>

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

**THE LIFE SKILLS CENTER OF CANTON
STARK 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	\$ 1,140,782
Cash payments to suppliers for goods and services	<u>(1,440,922)</u>
Net cash used for operating activities	<u>(300,140)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital expenses	(5,458)
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CASH FLOWS FROM INVESTING ACTIVITIES

Cash received from interest	<u>91</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from grant programs	246,556
Cash received from miscellaneous sources	1,156
Net cash received from noncapital financing activities	<u>247,712</u>
Net decrease in cash and cash equivalents	(57,795)
Cash and cash equivalents at beginning of year	<u>257,543</u>
Cash and cash equivalents at end of year	<u>\$ 199,748</u>

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

Operating loss	<u>\$ (268,167)</u>
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	364
Changes in assets and liabilities:	
Continuing fees receivable	(97,230)
State funding receivable	52,617
Sponsorship fees receivable	(1,074)
Sponsorship fees payable	(995)
Accounts payable	5,202
State funding payable	95,618
Grants funding payable	(42,584)
Continuing fees payable	<u>(43,891)</u>
Total adjustments	<u>(31,973)</u>
Net cash used for operating activities	<u>\$ (300,140)</u>

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

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Life Skills Center of Canton (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.

For the year ended June 30, 2011, the School operated under the name 'Brighten Heights Charter School of Canton'. On February 21, 2012, the School formally changed their name to 'The Life Skills Center of Canton'.

The School contracts with LS Canton, LLC, a Nevada limited liability company, for most of its functions (see note 10 for details).

The School renewed their contract with their sponsor, Ohio Council of Community Schools (Sponsor), to operate for a period from July 1, 2010 through June 30, 2015.

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 July 2002 and has one instructional/support facilities, which is leased by LS Canton, LLC. The facilities are staffed with teaching personnel employed by LS Canton, LLC, who provide services to 117 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.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 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.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

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 \$1,277,479.

F. Capital Assets and Depreciation

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

As of June 30, 2012, the School's capital assets had a net book value of \$5,094 (see note 8). 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 Canton, LLC (see note 10).

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.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all School deposits was \$16,351. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, the School's bank balance of \$20,572 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, 2012, the School had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	Investment Maturities		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Greater than 12 months</u>
STAROhio	\$183,397	\$183,397	\$ -	\$ -

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>Percent to Total</u>
STAROhio	\$183,397	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, 2012, the amount of "State funding payable" was \$95,618.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

5. CONTINUING FEES PAYABLE/RECEIVABLE

A "Continuing fees payable" to LS Canton, LLC has been recorded by the School in the amount of \$2,711 for 95 percent of the additional funding received from the State during the school year. The remaining amount of \$3,802 is due to an unpaid balance throughout the year.

A "Continuing fees receivable" from LS Canton, LLC has been recorded by the School in the amount of \$51,017 for the contracted percent of the "State funding payable" due to the State for the FTE liability (see note 4). The remaining portion of the receivable, in the amount of \$46,213, is money that the School will receive in order to pay back STRS. STRS gave the School \$46,213 in order to meet their retirement obligations throughout the school year.

6. SPONSORSHIP FEES PAYABLE/RECEIVABLE

A "Sponsorship fees payable" to the sponsor has been recorded by the School in the amount of \$57 for the contracted percent of the additional funding received from the State during the school year.

A "Sponsorship fees receivable" from the sponsor has been recorded by the School in the amount of \$1,074 for the contracted percent of the "State funding payable" due to the State for the FTE liability (see note 4).

7. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants funding receivable" in the amount of \$66,587 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2012.

Additionally, under the terms of the management agreement (see note 10), the School has recorded a liability to LS Canton, LLC in the amount of \$130,821 for 100 percent of any State and Federal monies uncollected or unpaid to LS Canton, LLC as of June 30, 2012.

8. CAPITAL ASSETS AND DEPRECIATION

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

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Capital assets being depreciated:				
Equipment	\$ -	\$ 5,458	\$ -	\$ 5,458
Less accumulated depreciation:				
Equipment	_____ -	(364)	_____ -	(364)
Total capital assets being depreciated, net				
	\$ _____ -	\$ 5,094	\$ _____ -	\$ 5,094

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

9. 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 Canton, LLC, LS Canton, LLC has contracted with an insurance company for property and general liability insurance pursuant to the management agreement (see note 10). 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 with a \$2,500 deductible.

10. AGREEMENT WITH LS CANTON, LLC

Effective July 1, 2011, the School entered into a revised management agreement (Agreement) with LS Canton, LLC which is an educational consulting and management company. The Agreement's term runs through June 30, 2015, and will renew automatically for two (2) consecutive five (5) year terms, unless terminated for cause by either party. Substantially all functions of the School have been contracted to LS Canton, LLC. LS Canton, LLC 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." The continuing fee is paid to LS Canton, LLC based on the previous month's qualified gross revenues. As such, LS Canton, LLC 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, 2012, to LS Canton, LLC of \$1,180,163, and payables to LS Canton, LLC at June 30, 2012 aggregating \$137,334. LS Canton, LLC 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.

11. SPONSORSHIP FEES

The School renewed its contract with Ohio Council of Community Schools as its sponsor effective July 1, 2010. The School pays the Sponsor two percent (2%) of state aid. Total fees for fiscal 2012 were \$18,927. The contract is for five years ending June 30, 2015. The Sponsor is to provide oversight, monitoring, and technical assistance for the School.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

12. MANAGEMENT COMPANY EXPENSES

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

Expenses	2012
Direct Expenses:	
Salaries and wages	\$ 438,644
Employees' benefits	153,410
Professional and technical services	196,962
Property services	141,700
Travel	2,050
Communications	17,602
Utilities	47,095
Food and Related Supplies	19,112
Other supplies	97,373
Depreciation	37,383
Other direct costs	(72,248)
Indirect Expenses:	
Overhead	248,696
Total Expenses	<u>\$ 1,327,779</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.

13. DEFINED BENEFIT PENSION PLANS

The School has contracted with LS Canton, 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 10)

A. School Employee Retirement System

Plan Description – LS Canton, 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 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

13. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and LS Canton, 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 \$4,700, \$1,757, and \$9,397, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

Plan Description – LS Canton, LLC, on behalf of the School, participates in the State Teachers Retirement System of Ohio (STRS Ohio), 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 that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site 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 a 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 DC Plan and the DB 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.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

13. 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 Canton, 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.

LS Canton, LLC's required contributions on behalf of the School for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010, were \$52,416, \$136,993, and \$58,307, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and combined plan for fiscal year 2012 were \$11,011 made by LS Canton, LLC and \$7,865 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.

14. 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 2012 was \$99.90 for most participants, but could be as high as \$319.70 based 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 Canton, LLC's contributions on behalf of the School for the years ended June 30, 2012, 2011, and 2010, were \$278, \$113, and \$559, respectively, which equaled the required contributions each year.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

14. 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 Canton, LLC's contributions on behalf of the School assigned to health care for the years ended June 30, 2012, 2011, and 2010, were \$944, \$4,827, and \$1,449, 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.

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.

B. State Teachers Retirement System

Plan Description – LS Canton, 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.

**THE LIFE SKILLS CENTER OF CANTON
STARK COUNTY**

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

14. 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 \$4,032, \$10,538, and \$4,485, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

15. 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 of Canton
Stark County
1100 Cleveland Avenue
Canton, Ohio 44702

To the Board of Directors:

We have audited the financial statements of Life Skills of Canton, Stark County, Ohio (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated April 22, 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.

Life Skills of Canton
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

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 April 22, 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.

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Dave Yost
Auditor of State

April 22, 2013



Dave Yost • Auditor of State

LIFE SKILLS CENTER OF CANTON

STARK 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.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED
MAY 9, 2013