



**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

REGULAR AUDIT

FOR THE PERIOD ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Life Skills Center of Cincinnati
Hamilton County
2612 Gilbert Avenue
Cincinnati, Ohio 45206

To the Board of Trustees:

We have audited the accompanying financial statements of the Life Skills Center of Cincinnati, Inc., Hamilton County, Ohio (the School), as of and for the period ended June 30, 2000, 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life Skills Center of Cincinnati, Inc., Hamilton County, Ohio as of June 30, 2000, and the results of its operations and cash flows for the period then ending, in conformity with generally accepted accounting principles.

As discussed in Note 8, the School is in the process of applying for federal tax exemption pursuant to Internal Revenue Code Section 501(c)(3). The School has made no provision for any potential tax liability which could result if exempt status is not obtained.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2001, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

May 21, 2001, except for Note 10 B, as to
which the date is May 31, 2001

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**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2000**

ASSETS

Cash and cash equivalents	\$ 22,111
State funding receivable	<u>3,515</u>
TOTAL ASSETS	<u><u>\$ 25,626</u></u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts Payable	\$ 20,390
Continuing fees payable	<u>3,480</u>
TOTAL LIABILITIES	23,870

FUND EQUITY

Retained earnings	<u>1,756</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 25,626</u></u>

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

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE PERIOD ENDED JUNE 30, 2000**

OPERATING REVENUES

State basic aid	\$ 217,483
Miscellaneous	<u>17</u>
TOTAL OPERATING REVENUES	217,500

OPERATING EXPENSES

Purchased services	215,698
Other operating expenses	<u>50,046</u>
TOTAL OPERATING EXPENSES	<u>265,744</u>
OPERATING LOSS	(48,244)

NON-OPERATING REVENUES

Start-up grant	<u>50,000</u>
NET INCOME	1,756
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>-</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$ 1,756</u></u>

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

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2000**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State of Ohio	\$ 213,968
Cash payments to suppliers for goods and services	(241,874)
Other operating revenue	<u>17</u>
Net cash provided by operating activities	(27,889)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Start-up grant	<u>50,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,111
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 22,111</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (48,244)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Changes in assets and liabilities:

(Increase) in state funding receivable	(3,515)
Increase in continuing fees payable	3,480
Increase in accounts payable	<u>20,390</u>
Total adjustments	<u>20,355</u>
Net cash provided by operating activities	<u><u>\$ (27,889)</u></u>

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

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**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Life Skills Center of Cincinnati (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with WHLS of Ohio, LLC (WHLS) for most of its functions. See Note 7. The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year April 1, 2000 through June 30, 2004. The School began operations on April 1, 2000. The School operates under a self-appointing three-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of successors trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by teaching personnel employed by WHLS which provides services to 48 students. Certain members of the Board also are members of the Board of Riverside Academy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) 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 or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned,

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expenses incurred, and/ or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

C. BUDGETARY PROCESS

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

D. CASH AND CASH EQUIVALENTS

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

E. FIXED ASSETS AND DEPRECIATION

The School operates under a management agreement with WHLS and as such, the School has no fixed assets.

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned and measurable.

G. USE OF ESTIMATES

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

3. DEPOSITS

At year-end, the carrying amount of the School's deposits were \$22,111, and the bank balance was \$22,111. All of the bank balance was covered by federal depository insurance.

4. STATE FUNDING RECEIVABLE

The School has recognized on its balance sheet a "State funding receivable" for the amount that is estimated to be funded to the School by the Ohio Department of Education (ODE) based on the difference in the amount the school actually received versus the amount earned through student full-time equivalent (FTE) enrollment as determined at the end of the year. A receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the FTE enrollment figure was calculated to be at year end.

5. CONTINUING FEES PAYABLE

A related "Continuing fees payable" has been recorded by the school for 97% of the amount of "State funding receivable" which is due to WHLS under the terms of the management agreement. See Note 7.

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

6. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with WHLS, WHLS has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement. See Note 7.

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

7. AGREEMENT WITH WHLS

Effective July 1, 1999, the School entered into a five-year Management Agreement (Agreement) with WHLS which is an educational consulting and management company. The Consulting Agreement's term coincides with the school's charter agreement. Substantially all functions of the School have been contracted to WHLS. WHLS is responsible and accountable to the School's Board of Trustees (the "School Board") for the administration, operation and performance of the School in accordance with the School's contract (Contract) with the Ohio State Board of Education to operate the School. Significant provisions of the Agreement are as follows:

Financial Provisions

Management, Consulting and Operation Fee. The School is required to pay WHLS a monthly continuing fee of 99% of the School's "Qualified Gross Revenues", defined in the Agreement as, "...all revenues and income received by the School except for charitable contributions" and "shall receive 100% of any and all grants or funding of any kind generated by WHLS, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues.

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

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

7. AGREEMENT WITH WHLS (Continued)

WHLS Financial Responsibilities

Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by WHLS. Such costs include, but are not limited to, salaries for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, and capital improvements. All personal property used in the operation of the School is the property of WHLS, unless purchased directly by the School with its separate funds.

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

Personnel

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

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

Agreement Termination

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

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

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

8. FEDERAL TAX EXEMPTION STATUS

The School has not filed for tax exempt status under Section 501(c)(3) of the Internal Revenue Code. Management is currently in the process of completing the required filing for tax exempt status. Should the School fail to obtain federal tax exempt status, it could be subject to federal income tax, the effect of which has not been assessed.

9. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School. During the fiscal year ended June 30, 2000, the School earned \$222,584 in school foundation revenue.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 27, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the School is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

10. CONTINGENCIES

A. GRANTS

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

B. PENDING LITIGATION

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

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

Life Skills Center of Cincinnati
Hamilton County
2612 Gilbert Avenue
Cincinnati, Ohio 45206

To the Board of Trustees:

We have audited the financial statements of the Life Skills Center of Cincinnati, Inc., Hamilton County, Ohio (the School), as of and for the period ended June 30, 2000, and have issued our report thereon dated May 21, 2001, except for Note 10 B, as to which the date is May 31, 2001. That report noted the School is in the process of applying for federal tax exemption pursuant to Internal Revenue Code Section 501(c)(3). We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2000-10431-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School in a separate letter dated May 21, 2001.

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

Jim Petro
Auditor of State

May 21, 2001

**LIFE SKILLS CENTER OF CINCINNATI
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2000**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2000-10431-001

Reportable Condition

The School is in the process of completing its application for Federal tax exempt status for submission to the Internal Revenue Service. Failure to obtain Federal tax exempt status may result in Federal income tax liabilities, which presently have not been determined.

We recommend the School complete and file its application for tax exempt status with the Internal Revenue Service as soon as possible.



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LIKE SKILLS CENTER OF CINCINNATI

HAMILTON 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 14, 2001**