



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying Balance Sheet of the Life Skills Center of Northern Columbus, Franklin County, Ohio, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit/Retained Earnings and Statement of Cash Flows for the year then ended. 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 *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 the Life Skills Center of Northern Columbus, Franklin County, Ohio, as of June 30, 2003, and the results of its operations 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 12, 2004, 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.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery
Auditor of State**

April 12, 2004

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

**BALANCE SHEET
AS OF JUNE 30, 2003**

ASSETS

Current Assets

Cash	\$ 11,796
Accounts Receivable	12,629
Intergovernmental Receivable	<u>27,421</u>

Total Assets **\$ 51,846**

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	<u>\$ 49,487</u>
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Total Liabilities 49,487

EQUITY

Retained Earnings	<u>2,359</u>
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Total Liabilities and Equity **\$ 51,846**

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

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
ACCUMULATED DEFICIT/RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

OPERATING REVENUE

Foundation	\$ 1,159,877
Total Operating Revenues	<u>1,159,877</u>

OPERATING EXPENSES

Fringe Benefits	25,580
Other Services	1,200
Professional Services	1,258,140
Advertising	183
Liability Insurance	984
Legal Service	167
Rent	3,000
Other Services and Overhead	6,350
Liability Insurance	4,500
Board Services Meeting Expenses	1,625
Total Operating Expenses	<u>1,301,729</u>

Operating Loss	(141,852)
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NON-OPERATING REVENUE

State Grants	28,700
Federal Grants	124,886
Total Non-Operating Revenues	<u>153,586</u>

Net Income	11,734
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Accumulated Deficit, July 1, 2002	<u>(9,375)</u>
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Retained Earnings, June 30, 2003	<u>\$ 2,359</u>
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The accompanying notes to the financial statements are an integral part of this statement.

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

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2003**

INCREASE (DECREASE) IN CASH

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State Sources	\$ 1,132,456
Cash Payments to Suppliers for Goods and Services	(1,274,246)

Net Cash Used for Operating Activities	(141,790)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs	153,586
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Net cash provided by Noncapital Financing Activities	153,586
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Net Increase in Cash	11,796
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Cash at Beginning of Year	-
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Cash at End of Year	\$ 11,796
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**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss	(141,852)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(12,629)
Increase in Intergovernmental Receivable	(27,421)
Increase in Accounts Payable	40,112

Total Adjustments	62
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Net Cash Used for Operating Activities	\$ (141,790)
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The accompanying notes to the financial statements are an integral part of this statement.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School contracts with WHLS of Ohio, LLC (WHLS) for most of its functions. See Note 5.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years from May 16, 2000 through June 30, 2005. The School operates under a self-appointing four-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by WHLS. The facility is staffed with teaching personnel employed by WHLS, who provide services to 194 students. Certain members of the Board are also members of the Board of the Life Skills Center of Southeastern Columbus, the Life Skills Center of Southwestern Columbus and the YouthBuild Columbus Community School.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The more significant of the School's accounting policies are described below.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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) 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, 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

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. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. BUDGETARY PROCESS

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

D. CASH AND CASH EQUIVALENTS

All cash received by the School is maintained in a demand deposit account. The School did not have any investments during the 2003 school year.

E. FIXED ASSETS AND DEPRECIATION

The School operates under a management agreement with WHLS, and as such the School has no fixed assets. (See Note 5)

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenue received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the school must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES (Continued)

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$118,180 during the year ended June 30, 2003 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above programs for the 2003 school year totaled \$1,313,463.

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 was \$11,796 and the bank balance was \$11,796. Of the bank balance, all was covered by federal depository insurance. No amounts were uninsured and uncollateralized.

4. 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 5).

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

5. AGREEMENT WITH WHLS

Effective January 27, 2003, the School entered into a three-year Management Agreement (Agreement) with WHLS, which is an educational consulting and management company. The agreement's termination date is June 30, 2005. WHLS is responsible and accountable to the Board for the administration, operation and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses for the year ended June 30, 2003 to WHLS of \$1,243,098.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. AGREEMENT WITH WHLS (Continued)

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 97% of the School's "Qualified Gross Revenues", defined in the Agreement as, "...all revenues and income received by the School except for charitable contributions" and "shall receive 100% of any and all grants or funding of any kind generated by WHLS, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues.

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

WHLS Financial Responsibilities

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

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

Personnel

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

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

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 30 days of its receipt of written notice from the School, unless the breach cannot be reasonably cured within 30 days, in which case the WHLS shall promptly undertake and continue efforts to cure said material breach within a reasonable time.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. PROFESSIONAL SERVICES CONTRACT

The School contracts with YouthBuild Columbus (YBC), a nonprofit corporation, to provide office facilities space and professional services relating to financial record keeping, audit preparation and grants research. Monthly services are billed as follows:

Office rental space	\$ 750
Allowance for copier, fax, phone, etc	100
Bookkeeping	1,000
Grants research	<u>250</u>
Total monthly bill	\$2,100

In accordance with the contract approved November 3, 2003, YBC billed the school \$2,100/month for services provided September 1, 2001 through June 30, 2002. YBC also billed the School \$2,100/month for fiscal year 2003.

The School also contracted with YBC to set up the School's computerized financial system at the rate of \$125/hr not to exceed 100 hours. The School was billed for \$9,375 (75 hours) in September 2001.

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

As a result of the services provided under the contract with YBC, the School had a \$9,375 liability/accumulated deficit on July 1, 2002 which was owed to YBC for financial system set up in September 2001. Amounts billed during September 2001 through June 2002 for monthly services have not been reported in the financial statements due to the date of the contract and repayment of billings under Ohio Revised Code 117.28. For similar reasons, only \$19,200 has been reported for fiscal year 2003.

7. RECEIVABLE FROM LIFE SKILLS CENTER OF SOUTHWESTERN COLUMBUS

In May 2003, the School recorded and paid an accounts payable of \$11,500 to YBC. The accounts payable did not represent amounts owed to YBC by the School, but represented amounts owed to YBC by the Life Skills Center of Southwestern Columbus (LSCSW). The School also recorded an \$11,500 accounts receivable from LSCSW. In August 2003, LSCSW repaid the \$11,500 to the School.

8. DEFINED BENEFIT PENSION PLANS

The School has contracted with WHLS to provide employee services and to pay those employees. However, these contract services do not relieve the school of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below: (See Note 5)

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

WHLS, on behalf of the School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the year ended June 30, 2003 was \$12,905. The School has contributed 100 percent of the required contributions for pension obligations to SERS for the year ended June 30, 2003.

B. STATE TEACHERS RETIREMENT SYSTEM

WHLS, on behalf of the School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contribution for pension obligations to STRS for the year ended June 30, 2003 was \$32,078. The School has contributed 100 percent of the required contributions for pension obligations to STRS for the year ended June 30, 2003.

9. POSTEMPLOYMENT BENEFITS

WHLS, on behalf of the School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the State Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$2,468 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and member's pay, pro-rated for partial credit. For fiscal year 2003, the minimum pay was established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million.

At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School, the amount to fund health care benefits, including surcharge, equaled \$11,533 during the 2003 fiscal year.

10. CONTINGENCIES

A. GRANTS

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

B. PENDING LITIGATION

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Life Skills Center of Northern Columbus is not presently determinable.

C. FULL TIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2003 resulted in the discovery of an underpayment to the School in the amount of \$27,421. This amount has been recorded as intergovernmental receivable in the financial statements. Under the terms of the management agreement with WHLS (See Note 5), a related accounts payable in the amount of \$26,598 has been recorded by the School for 97% of the amount due to WHLS.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. ACCUMULATED DEFICIT AT JULY 1, 2002

The School began its start-up operations in September 2001, although students were not served until September 2002. The School incurred expenses of \$9,375 for financial system set up from YBC (See Note 6) in September 2001, resulting in an accumulated deficit at July 1, 2002 of \$9,375.

12. FEDERAL TAX STATUS

In accordance with the options granted under existing Ohio law, the School has not filed for tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The School has indicated that it will operate the School as an Ohio not-for-profit corporation but will not currently apply for tax exempt status under any Internal Revenue Code Section, including, but not limited to, Internal Revenue Code Section 501(c)(3). As such, the School is subject to federal income tax. The School has not estimated its current federal tax liability based on its pre-tax income for the year ended June 30, 2003.

13. RELATED PARTY TRANSACTIONS

The contract described in Note 6 and the transaction described in Note 7 are considered related party transactions.

14. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

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**Auditor of State
Betty Montgomery**

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

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

To the Board of Trustees:

We have audited the financial statements of Life Skills Center of Northern Columbus, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 12, 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001, 2003-002 and 2003-003. We also noted an immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated April 12, 2004.

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 a certain matter involving the internal control over financial reporting and its operation 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 judgment, 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. The reportable condition is described in the accompanying schedule of findings as item 2003-004.

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 management of the School in a separate letter dated April 12, 2004.

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

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

Betty Montgomery
Auditor of State

April 12, 2004

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

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

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

FINDING NUMBER 2003-001

Finding Repaid Under Audit

The School contracts with YouthBuild Columbus (YBC) to provide monthly bookkeeping services for the School's operations. Those services include the preparation of financial statements (income and balance sheet), a detailed general ledger of all account activities, monthly bank reconciliations, compliance with all payroll tax reporting and requirements as applicable, and budget reporting when necessary.

In error, YBC prepared check #1008 dated April 22, 2003, in the amount of \$400 to Teleco of Charleston for an obligation of the YouthBuild of Charleston Community School.

On January 29, 2004, the \$400 was repaid to the School.

FINDING NUMBER 2003-002

Finding Repaid Under Audit

The School entered into a contract with YouthBuild Columbus (YBC) for office facilities space and professional services on May 28, 2002, for which services were to be paid dating back to the inception of the Ellendale Group (September 2001). The contract was approved by the Board on November 3, 2003.

The portion of the contract for office facilities space was billed by YBC to the School each month during the period of September 2001 through June 2003 at a rate of \$750 per month.

YBC rents space in a building at 1183 Essex Avenue from the YouthBuild Columbus Community School (YBCCS). YBCCS purchased the building in May 2002 and was making major renovations until January 2003. Space in this building was not available for use by YBC until January 2003. In addition, the lease agreement between YBC and the YouthBuild Columbus Community School was not effective until March 1, 2003. YBC, therefore, did not have a valid interest in the building until March 2003 and could not rent this same space to the School during the period of September 2001 through February 2003.

On April 5, 2004, the \$13,500 was repaid to the School.

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

**SCHEDULE OF FINDINGS
JUNE 30, 2003
Continued**

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

FINDING NUMBER 2003-003

Finding Repaid Under Audit

The School entered into a contract with YouthBuild Columbus (YBC) for office facilities space and professional services on May 28, 2002, for which services were to be paid dating back to the inception of the Ellendale Group (September 2001). The contract was approved by the Board on November 3, 2003.

The portion of the contract for professional services was billed by YBC to the School each month during the period of September 2001 through June 2002 as follows:

<u>Service provided</u>	<u>Fee</u>
Allowance for copier, fax, phone, etc	\$ 100
Bookkeeping	1,000
Grants research	<u>250</u>
Total monthly bill for professional services	\$1,350

The Board did not obtain ODE approval of the contract assignment for the operation of the School until July 15, 2002. Since the School was not able to operate until July 2002, there were no day to day operations that would require copier, fax, or phone use, bookkeeping, or grants research during the period of September 2001 through June 2002.

On April 5, 2004, the \$13,500 was repaid to the School.

FINDING NUMBER 2003-004

Reportable Condition – Tax Exempt Status

The School has not completed 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 federal tax-exempt status with the Internal Revenue Service.



**Auditor of State
Betty Montgomery**

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LIFE SKILLS CENTER OF NORTHERN COLUMBUS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 20, 2004**