Rea & associates a brighter way

Life Skills Center of Hamilton County
Hamilton County, Ohio

Final Audit

For the Period July 1, 2014
through January 31, 2016

CPAs and business consultants
www.reacpa.com

Dave Yost • Auditor of State

Board of Directors
Life Skills Center of Hamilton County
7710 Reading Road, Suite 300
Cincinnati, Ohio 45237

We have reviewed the *Independent Auditor's Report* of the Life Skills Center of Hamilton County, Hamilton County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through January 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Life Skills Center of Hamilton County is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

June 28, 2016

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Hamilton County, Ohio
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May 6, 2016

To the Board of Directors
Life Skills Center of Hamilton County
Hamilton County, Ohio
7710 Reading Road, Suite 300
Cincinnati, Ohio 45237

Independent Auditor's Report

We have audited the accompanying financial statements of the Life Skills Center of Hamilton County, Hamilton County, Ohio, (the "School") as of and for the nineteen month period ended January 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2.A. of the financial statements, the School prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2.A. and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, of the Life Skills of Hamilton County as of and for the nineteen month period ended January 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2.F, the School adopted Governmental Accounting Standard Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68." Our opinion is not modified with respect to this matter.

As described in Note 10, the School Board ceased operations on April 30, 2016. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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Life Skills Center of Hamilton County
Hamilton County, Ohio
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance
For the the Period July 1, 2014 through January 31, 2016

OPERATING CASH RECEIPTS:	
State Aid Funding	$ 544,761
Food Service	8,068
Other Operating Receipts	10,381
Total Operating Cash Receipts	563,210
OPERATING CASH DISBURSEMENTS:	
Fringe Benefits	14,886
Purchased Services	641,869
Materials and Supplies	80
Other Operating Disbursements	6,928
Total Operating Cash Disbursements	663,763
Excess of Cash Disbursements over Cash Receipts	(100,553)
NON-OPERATING CASH RECEIPTS	
Federal and State Subsidies	86,016
Interest	50
Total Non-Operating Cash Receipts	86,066
Net Change in Fund Cash Balance	(14,487)
Fund Cash Balance, July 1, 2014, restated	29,074
Fund Cash Balance, January 31, 2016	$ 14,587

See accompanying notes to the financial statements.

1. DESCRIPTION OF THE ENTITY

Life Skills Center of Hamilton County (the School) is a federal 501(c)(3) tax exempt, state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with LS Hamilton County, LLC for most of its functions (see note 6). Effective April 30, 2016 the Board effectively closed the School.

The School signed a contract with Ohio Council of Community Schools (OCCS) (Sponsor) to operate for a period from July 1, 2005 through June 30, 2010. The contract with the Sponsor has since been renewed for an additional three year term commencing July 1, 2010 and running through June 30, 2014, and subsequently for an additional five year term commencing July 1, 2014 and running through June 30, 2018. The School operates under a self-appointing, six-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 January 2003 and has one instructional/support facility, which is leased by LS Hamilton County, LLC. The facility is staffed with teaching personnel employed by LS Hamilton County, LLC, who provide services to approximately 62 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the School has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred.

B. Cash

Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on January 31, 2016. Certificates of deposit are reported at cost.

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 2015. 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. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

E. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

F. Implementation of New Accounting Principles

During the period, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.*

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. See Note 3 for further information.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See Note 3 for further information.

2. CASH AND INVESTMENTS

Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

State statutes classify monies held by the School into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Directors has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in these divisions are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio and STAR Plus);

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed 25% of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At January 31, 2016 the bank balance was $1,614 and carrying value of the School's deposits was $1,614. $0 of the School's bank balance of was exposed to custodial credit risk as discussed below, while $1,614, was covered by Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of January 31, 2016, is 53 days and carries a rating of AAAm by Standard and Poor's.

The carrying amount of cash and investments at January 31, 2016 was as follows:

Demand Deposits	$ 1,614
Star Ohio	12,973
Total Deposits and Investments	$ 14,587

3. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability is disclosed below, however the School had no employees as of June 30, 2015, thus no liability.

Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description – School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a 3% cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18%. The remaining 0.82% of the 14% employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $1,888 for period ended January 31, 2016.

Plan Description – State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the pension system fiscal year ended June 30, 2015, plan members were required to contribute 12% of their annual covered salary. The School was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The period ended November 30, 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $26,974 for period ended January 31, 2016.

4. POSTEMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The School participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 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 lessor of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2015 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income. SERS' reimbursement to retirees was $45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2015, 0.82% of covered payroll was allocated to health care. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the statewide SERS-covered payroll for the health care surcharge. For the year ending June 30, 2015, the actuarially determined amount was $20,450.

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

The School's contributions for health care (including surcharge) for the periods ending 2015, 2014 and 2013 were $110, $165 and $0, respectively; 100% has been contributed for all years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For pension system year end June 30, 2015, the actuarially required allocation was 0.76% of covered payroll. The School's contributions for Medicare Part B for the periods ending 2015, 2014 and 2013, were $102, $228 and $225, respectively; 100% has been contributed for all years.

State Teachers Retirement System

Plan Description - The School contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. The School's contributions for health care for periods ending 2015, 2014 and 2013 were $0, $3,181 and $3,036 respectively: 100% has been contributed for all years.

5. 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 Hamilton County, LLC, LS Hamilton County, LLC has contracted with an insurance company for property and general liability insurance pursuant to the management agreement (see note 8). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

Director and Officer - Coverage has been purchased by the School with a $5,000,000 aggregate limit and a $15,000 deductible.

6. AGREEMENT WITH LS HAMILTON COUNTY, LLC

In June 2014, the School entered into the third amendment to the management agreement (Agreement) with LS Hamilton County, LLC, which is an educational consulting and Management Company. The Agreement's term expired on June 30, 2015 with the School's charter agreement and will automatically renew for successive one (1) year terms unless one party notifies the other party on or before February 1st prior to the expiration of the then-current term of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to LS Hamilton County, LLC. LS Hamilton County, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay LS Hamilton County, LLC a monthly continuing fee of 95.5 percent of the School's "Qualified Gross Revenues", defined as all revenues and income received by the School except for charitable contributions. Also LS Hamilton County, LLC shall receive 100 percent of any and all grants (except for the Educational Jobs grant) or funding of any kind generated by LS Hamilton County, LLC, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any. This continuing fee is paid to LS Hamilton County, LLC based on the qualified gross revenues.

The School had purchased service expenses for the period ended January 31, 2016, to LS Hamilton County, LLC of $575,695 of which $833 was payable to LS Hamilton County, LLC at January 31, 2016. LS Hamilton County, LLC will be responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

7. CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School at January 31, 2016, if applicable, cannot be determined at this time.

B. Litigation

The School is not party to any claims or lawsuits that would, in the School's opinion, have a material effect of the basic financial statements.

C. School Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

8. SPONSORSHIP FEES

Under Paragraph D(5) of the sponsor contract with OCCS, it states that the School "…shall pay to the Sponsor the amount three percent (3%) of the total state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Sponsor pursuant to this contract." Such fees are paid to the OCCS monthly. The amount due and paid during the reporting period was $16,629.

9. MANAGEMENT COMPANY EXPENSES

For the School year ended June 30, 2015, LS Hamilton County, LLC and its affiliates incurred the following expenses on behalf of the School. Effective July 1, 2015, the School switched management companies to Cambridge Education Group, in an attempt to find a location; however, the school was suspended and then closed, with no material activity taking place.

		2015
Expenses		
Direct Expenses:		
Salaries and wages	$	249,294
Employees' benefits		69,887
Professional and technical services		151,994
Property services		104,712
Travel		1,425
Communications		39,415
Utilities		203
Transportation		5,055
Books, periodicals, and films		813
Food and related supplies		10,177
Other supplies		21,141
Depreciation		742
Other direct costs		30,377
Indirect Expenses:		
Overhead		247,415
Total Expenses	$	932,650

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

10. SUBSEQUENT EVENTS/SCHOOL CLOSURE

Effective June 30, 2015, the School Board requested and was granted approval by the Ohio Department of Education to enter a voluntary suspension of operations until such time as sufficient enrollment levels can be obtained to allow the School to project breakeven operations. Operations remained suspended for fiscal year 2016. The School closed operations as of April 30, 2016.

As of the date of this report the School has a liability to the ODE in the amount of $64,757 for a State funding adjustments communicated to the School by the Ohio Department of Education (ODE) in December 2015. However, on April 15, 2016 the School filed a data appeal with the ODE which asserts that the State's payment system inadvertently eliminated the School's entire Career Tech Education funding from FY15, thus causing the majority of this liability. The amount being contested is $46,335, which if granted will reduce the current liability to $18,402.This liability will be paid as soon as the School receives the funding from LS Hamilton County, LLC. The Academy has followed the closing procedures prescribed by the Ohio Department of Education (ODE). Those procedures included official notification to ODE, retirement systems, the students and the community of the School's decision to close. Once all costs and liabilities are known, the School will pay its final costs and any residual cash balances remaining will be remitted to ODE per Ohio Revised Code 3314.074, and the account will be closed.

11. RESTATEMENT OF NET POSITION/FUND CASH BALANCES

Net position/Fund Cash Balances has been restated at June 30, 2014, to change from generally accepted accounting principles to the regulatory basis of accounting, as allowed by Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). The adjustments had the following effect on net position as previously reported:

Net Position, June 30, 2014	$	9,544
Adjustments:		
Removal of Assets		(27,221)
Removal of Liabilities		46,751
Beginning Fund Cash Balance, July 1, 2014	$	29,074

12. PURCHASED SERVICES

For the period July 1, 2014 through January 31, 2016, purchased service expenses were as follows:

Purchased Services		Amount
Management Fees	$	481,665
Management Fees- Grants		94,030
Consulting		1,125
Legal		18,760
Audit & Accounting		13,005
Sponsor Fee		16,629
Insurance		8,631
Food		8,024
Total	$	641,869

Rea & associates a brighter way

May 6, 2016

To the Board of Directors
Life Skills Center of Hamilton County
Hamilton County, Ohio
7710 Reading Road, Suite 300
Cincinnati, Ohio 45237

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required By *Government Auditing Standards*

We have audited in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Life Skills Center of Hamilton County, Hamilton County, Ohio (the "School") as of and for the nineteen month period ended January 31, 2016, and the related notes to the financial statements and have issued our report thereon dated May 6, 2016, wherein we issued an adverse opinion on the School's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America, and we also noted that the School ceased operations effective April 30, 2016.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2015-001.

School's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

SCHEDULE OF FINDINGS
January 31, 2016

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

FINDING #2015-001
Material Non-Compliance – Financial Reporting

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form of the report, the public office shall submit its report to the form utilized by public office. Ohio Administrative Code Section 117-2-13 further clarifies the requirements of Ohio Rev. Code 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. GASB Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments" requires the School's basic financial statements and required supplementary information (RSI) consist of the following:

- Management's Discussion and Analysis – Providing management's analytical overview of the School's financial activities.
- Basic Financial Statements – The basic financial statements will consist of a statement of net position, statement of revenues, expenses, and changes in net position, as well as a statement of cash flows, prepared on the economic resources measurement focus and the accrual basis of accounting. These statements will report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, and gains and losses of the School.
- Required Supplementary Information – Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions.

Condition: The School did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-02-03(B).

Cause: For the period ended January 31, 2016, the School prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omits assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and net position, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the School may be fined and subject to various other administrative remedies for its failure to file the required financial report.

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

FINDING #2015-001
Material Non-Compliance – Financial Reporting (continued)

Recommendation: We recommend the School review the standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments*. We also recommend the School prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: Due to the School closing and not having sufficient resources available to complete the required GAAP filing and implementation of GASB 68 and 71, the School elected to prepared cash-basis statements only.

LIFE SKILLS CENTER OF HAMILTON COUNTY

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
JULY 7, 2016

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