



**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Life Skills Center of Dayton
Montgomery County
1721 N. Main St.
Dayton, Ohio 45405-4143

To the Board of Directors:

We have audited the accompanying basic financial statements of the Life Skills Center of Dayton, Montgomery County, Ohio, (the School) as of and for the year ended June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 net assets of Life Skills Center of Dayton, Montgomery County, Ohio, as of June 30, 2007, and the changes in its net assets 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 February 29, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

February 29, 2008

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
(Unaudited)**

The discussion and analysis of the Life Skills Center of Dayton (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, Net Assets increased \$35,815, which represents a 32.9 percent increase from 2006. This was a direct result of the increase in grant funding receivables.
- Total assets increased \$140,601, which represents a 31.9 percent increase from 2006. This too is the result of the significant increase in the School's grant funding receivables.
- Liabilities increased \$104,786, which represents a 31.5 percent increase from 2006. As explained later, the increase in liabilities is a direct result of the increase in Federal receivables, which directly increases management fees.

Using this Financial Report

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

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
(Unaudited)**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2007. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2007 and fiscal year 2006.

(Table 1)
Net Assets

	2007	2006
Assets		
Current Assets	\$ 552,674	\$ 397,406
Capital Assets, net	29,333	44,000
Total Assets	\$ 582,007	\$ 441,406
 Liabilities		
Current Liabilities	\$ 437,258	\$ 332,472
 Net Assets		
Invested in Capital Assets	\$ 29,333	\$ 44,000
Unrestricted	115,416	64,934
Total Net Assets	\$ 144,749	\$ 108,934

Total assets increased \$140,601. This increase was primarily due to the increase in grant funding due from the Federal Government, as well as a decrease in funding owed to the State of Ohio for student enrollment in 2006. Liabilities increased by \$104,786. This increase directly corresponds to the increase in grants funding receivables as the School operates under a management agreement with WHLS of Ohio, LLC (WHLS). Under the terms of the management agreement, WHLS is paid a specific percentage of the State and Federal revenues the School receives.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
(Unaudited)**

Statement of Revenues, Expenses, and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2007 and 2006, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2007	2006
Operating Revenues		
State Aid	\$ 2,326,337	\$ 2,574,072
Non-Operating Revenues		
Grants	477,939	275,337
Miscellaneous	16	0
Interest	7,520	2,262
Total Revenues	2,811,812	2,851,671
Operating Expenses		
Purchased Services: Management Fees	2,256,687	2,496,850
Purchased Services: Grant Programs	477,939	231,337
Sponsorship Fees	11,632	12,870
Board of Education	0	1,381
Advertising	901	416
Auditing & Accounting	6,127	140
Insurance	7,219	7,437
Depreciation	14,667	0
Miscellaneous	825	108
Total Expenses	2,775,997	2,750,539
Change in Net Assets	\$ 35,815	\$ 101,132

The primary reason for the decrease in operating revenues is the drop in student enrollment from 2006. The primary reason for the increase in non-operating revenues from 2006 was due to the School receiving more grant funding than the prior year. The School's most significant expenses, "Purchased Services: Management Fees," decreased because of the management agreement in place between the School and WHLS. As stated previously, the agreement provides that specific percentages of the revenues received by the School will be paid to WHLS to fund operations. (See Notes to the Basic Financial Statements, Note 10.)

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
(Unaudited)**

Capital Assets

At the end of fiscal year 2007 the School had \$29,333, in computers & software. The decrease of \$14,667 was due to the recording of depreciation. Table 3 shows the respective balances for fiscal year 2007 and fiscal year 2006.

(Table 3)
**Capital Assets
(Net of Depreciation)**

	<u>2007</u>	<u>2006</u>
Computers & Software	\$ 29,333	\$ 44,000

For more information on capital assets, see Note 8 in the Notes to the Basic Financial Statements.

Current Financial Issues

The Life Skills Center of Dayton received revenue for 338 students in 2007 and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$6,883 in fiscal year 2007 with a 2.2 percent increase in State Basic Aid planned in fiscal year 2008. The School receives additional revenues from grant subsidies.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer for the Life Skills Center of Dayton, 159 South Main Street, Akron, Ohio 44308.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 156,347
Grants Funding Receivable	339,469
Continuing Fees Receivable	56,566
Sponsorship Fees Receivable	292
	<hr/>

Total Current Assets

552,674

Noncurrent Assets

Capital Assets, net	<hr/> 29,333
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Total Assets

\$ 582,007

LIABILITIES

Current Liabilities

Accounts Payable	\$ 35
State Funding Payable	58,315
Grants Funding Payable	378,908
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Total Liabilities

\$ 437,258

NET ASSETS

Invested in Capital Assets	\$ 29,333
Unrestricted Net Assets	115,416
	<hr/>

Total Net Assets

\$ 144,749

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

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

OPERATING REVENUES

State Aid	\$ 2,326,337
Total Operating Revenues	2,326,337

OPERATING EXPENSES

Purchased Services: Management Fees	2,256,687
Purchased Services: Grant Programs	477,939
Sponsorship Fees	11,632
Advertising	901
Insurance	7,219
Auditing and Accounting	6,127
Depreciation	14,667
Miscellaneous	825
Total Operating Expenses	2,775,997

Operating Loss	(449,660)
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NON-OPERATING REVENUES

Interest	7,520
Miscellaneous Revenue	16
Grants	477,939
Total Non-Operating Revenues	485,475

Change in Net Assets	35,815
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Net Assets, July 1, 2006	108,934
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Net Assets, June 30, 2007	\$ 144,749
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The notes to the basic financial statements are an integral part of this statement.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State and Federal Sources	\$	2,263,356
Cash Payments to Suppliers for Goods and Services		<u>(2,532,158)</u>
Net Cash Used for Operating Activities		(268,802)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs		325,933
Cash Received from Miscellaneous		<u>16</u>
Net Cash Received from Noncapital Financing Activities		325,949

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest Income		<u>7,520</u>
Net Increase in Cash and Cash Equivalents		64,667
Cash and Cash Equivalents at Beginning of Year		<u>91,680</u>
Cash and Cash Equivalents at End of Year	\$	<u><u>156,347</u></u>

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

Operating Loss	\$	(449,660)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation		14,667
Changes in Assets and Liabilities:		
Continuing Fees Receivable		61,091
Sponsorship Fees Receivable		314
Accounts Payable		(19)
State Funding Payable		(62,981)
Grants Funding Payable		<u>167,786</u>
Total Adjustments		<u>180,858</u>
Net Cash Used for Operating Activities	\$	<u><u>(268,802)</u></u>

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

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**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Life Skills Center of Dayton (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 10.)

The School signed a contract with Ohio Council of Community Schools (OCCS) (Sponsor) to operate for a period from July 1, 2004 through June 30, 2009. The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which 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 provides services to 338 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. BASIS OF PRESENTATION

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in 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. In addition, the Board adopted an operating budget at the beginning of fiscal year 2007, however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. CASH AND CASH EQUIVALENTS

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

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. CASH AND CASH EQUIVALENTS (Continued)

During fiscal year 2007, investments were limited to the State Treasurer's Investment Pool, STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2007.

E. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and the Career Based Intervention (CBI) Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses, and Changes in Net Assets. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2007 school year totaled \$2,804,276.

F. CAPITAL ASSETS AND DEPRECIATION

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

As of June 30, 2007, the School's capital assets had a net book value of \$29,333. (See Note 8.) Depreciation is computed by the straight-line method over three years for "Computers & Software."

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with WHLS. (See Note 10.)

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. USE OF ESTIMATES

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

H. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets consist of capital assets, net of accumulated depreciation, and unrestricted net assets.

I. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily State Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all School deposits was \$8,804. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, none of the School's bank balance of \$10,000 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

As of June 30, 2007, the School had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Greater than 24 months</u>
STAROhio	\$ 147,543	\$ 147,543	\$ -	\$ -

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor’s has assigned STAROhio an AAAM money market rating.

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2007:

STAROhio	\$ 147,543	<u>100.00</u>
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4. STATE FUNDING PAYABLE

The School has recognized on its Statement of Net Assets a “State Funding Payable” for the amount of State Aid directly related to FTE, estimated to be repaid by the School to the Ohio Department of Education (ODE) based on the difference in the amount the School actually received versus the amount earned through student full-time equivalent (FTE) enrollment as determined at the end of the year. A payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. At June 30, 2007, the amount of “State Funding Payable” was \$58,315.

5. CONTINUING FEES RECEIVABLE

A “Continuing Fees Receivable” from WHLS has been recorded by the School in the amount of \$56,566 for 97 percent of the “State Funding Payable” due to the State for the FTE liability. (See Note 4.)

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

6. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$339,469 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2007.

Additionally, under the terms of the management agreement (See Note 10.), the School has recorded a liability to WHLS in the amount of \$378,908 for 100 percent of any State and Federal monies uncollected or unpaid to WHLS as of June 30, 2007.

7. SPONSORSHIP FEES RECEIVABLE

A "Sponsorship Fees Receivable" from OCCS has been recorded by the School in the amount of \$292 for one half of one percent (1/2%) of the "State Funding Payable" due to the State for the FTE liability. (See Note 4.)

8. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2007, the School's capital assets consisted of the following:

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/07</u>
Capital Assets Being Depreciated:				
Computers & Software	\$ 44,000	\$ -	\$ -	\$44,000
Less Accumulated Depreciation:				
Computers & Software	-	(14,667)	-	(14,667)
Total Capital Assets Being Depreciated, Net	<u>\$ 44,000</u>	<u>\$ (14,667)</u>	<u>\$ -</u>	<u>\$ 29,333</u>

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

9. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with WHLS, WHLS has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement. There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past two years. (See Note 10.)

Director and Officer - Coverage has been purchased by the School with a \$2,000,000 aggregate limit and a \$5,000 deductible.

10. AGREEMENT WITH WHLS

Effective September 22, 2004, the School entered into a five-year Management Agreement (Agreement) with WHLS, which is an educational consulting and management company. The Agreement "...will automatically renew for additional, successive five (5) year terms unless one party notifies the other party at least six (6) months prior to the expiration of the then-current term of its intention not to renew..." Substantially all functions of the School have been contracted to WHLS. WHLS is responsible and accountable to the School's Board of Directors for the administration and operation. The School is required to pay WHLS a monthly continuing fee of 97 percent of the School's "Qualified Gross Revenues", defined in the Agreement as, "... revenues and income received by the School from the following sources: Basic State Funding..." and "the School will pay the Company 100 percent of all contributions and grants". The continuing fee is paid to WHLS based on the previous month's qualified gross revenues. The School had purchased service expenses for the year ended June 30, 2007, to WHLS of \$2,734,626 of which \$378,908 was payable to WHLS at June 30, 2007. WHLS 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.

11. SPONSORSHIP FEES

Under Paragraph D(5) of the sponsor contract with OCCS, it states that the School "...shall pay to the Sponsor the amount of one half of one percent (1/2%) 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. As indicated on the Statement of Revenues, Expenses, and Changes in Net Assets, the School incurred \$11,632 in sponsorship fees to OCCS.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

12. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2007, WHLS of Ohio, LLC and its affiliates incurred the following expenses on behalf of the School.

	2007
Expenses	
Direct Expenses:	
Salaries & wages	\$ 645,271
Employees' benefits	163,781
Professional & technical services	232,531
Property services	312,651
Travel	7,066
Communications	52,112
Utilities	31,537
Books, periodicals, & films	7,128
Other supplies	205,290
Depreciation	167,437
Other direct costs	38,579
Indirect Expenses:	
Overhead	603,326
Total Expenses	\$ 2,466,709

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

13. DEFINED BENEFIT PENSION PLANS

The School has contracted with 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 10.)

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

13. 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, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations, compared to 10.58 percent for fiscal year 2006. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the years ended June 30, 2007 and 2006, were \$8,327 and \$17,743 respectively, of which 100 percent has been contributed.

B. STATE TEACHERS RETIREMENT SYSTEM

WHLS, on behalf of the School, contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement 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, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for fiscal years ended June 30, 2007 and 2006 were \$72,406 and \$63,931 respectively, of which 100 percent has been contributed.

**LIFE SKILLS CENTER OF DAYTON
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

14. 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 of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School 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.

STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$5,570 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the School paid \$2,588, to fund health care benefits, including the surcharge.

**LIFE SKILLS CENTER OF DAYTON
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants eligible to receive health care benefits.

15. CONTINGENCES

Grants

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

16. 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.

17. FEDERAL TAX EXEMPTION STATUS

In accordance with the options granted under existing Ohio law, the School filed for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code in September 2006.

**LIFE SKILLS CENTER OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

18. PENDING LITIGATION

A lawsuit entitled Beverly Blount-Hill, et al. v. State of Ohio, et.al., Case #3:04CV197 was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004. The suit alleges the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Life Skills Center of Dayton cannot presently be determined.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Life Skills Center of Dayton
Montgomery County
1721 N. Main St.
Dayton, Ohio 45405-4143

To the Board of Directors:

We have audited the financial statements of the Life Skills Center of Dayton, Montgomery County, Ohio, (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain matter that we reported to the School's management in a separate letter dated February 29, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 29, 2008



Mary Taylor, CPA
Auditor of State

LIFE SKILLS CENTER OF DAYTON

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 3, 2008**