



**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lighthouse Community School
Hamilton County
1501 Madison Road
Cincinnati, Ohio 45206

To the Board of Trustees:

We have audited the accompanying Balance Sheets of Lighthouse Community School, Hamilton County, Ohio (the School), as of June 30, 2003, and 2002, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and the Statements of Cash Flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2003 and 2002, and the results of its operations and cash flows for the years then ended, in conformity with auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2003. We previously issued our report dated January 14, 2003, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2002. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Betty Montgomery
Auditor of State

November 28, 2003

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**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**BALANCE SHEETS
AS OF JUNE 30, 2003 AND 2002**

<u>Assets</u>	2003	2002
<u>Current Assets</u>		
Cash	\$ 552,966	\$ 409,519
Petty Cash	250	250
Accounts Receivable	36,103	22,010
Intergovernmental Receivable	193,393	17,044
Prepaid Expenses	2,400	2,000
Total Current Assets	785,112	450,823
<u>Non-Current Assets</u>		
Fixed Assets (Net of Accumulated Depreciation)	7,343	16,211
Total Assets	\$792,455	\$467,034
 <u>Liabilities and Fund Equity</u>		
<u>Current Liabilities</u>		
Accounts payable	\$36,849	\$20,875
Intergovernmental payable	1,535	2,455
Contract payable	11,983	10,488
Accrued Wages and Benefits	20,766	17,816
Total Current Liabilities	71,133	51,634
<u>Long-term Liabilities</u>		
Compensated absences payable	26,981	20,232
Total Liabilities	98,114	71,866
<u>Fund Equity</u>		
Unreserved Retained Earnings	694,341	395,168
Total Fund Equity	694,341	395,168
Total Liabilities and Fund Equity	\$792,455	\$467,034

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

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
<u>Operating Revenues</u>		
Foundation payments	\$ 316,433	\$ 224,080
State special education program	296,040	225,218
FY 01 funding level adjustment	200,495	184,290
Miscellaneous	49,843	43,394
Total Operating Revenues	862,811	676,982
<u>Operating Expenses</u>		
Salaries	456,252	368,397
Fringe Benefits	139,422	109,464
Purchased Services		
Contract Services	96,975	85,185
Rent & Utilities	52,752	67,037
Equipment	21,203	8,155
Management Fees	114,726	80,100
Food Service	16,282	
Other purchased services	8,451	7,657
Supplies and materials	38,617	39,359
Depreciation	12,277	11,280
Other	39,472	25,468
Total Operating Expenses	996,429	802,102
Operating Loss	(133,618)	(125,120)
<u>Non-operating Revenues</u>		
Federal Grants	251,788	185,437
State Grants	17,780	7,675
Cincinnati Public School - school sponsor	99,208	75,404
Other grants	58,800	128,300
Donations		1,005
Interest Income	5,215	1,524
Total Non-Operating Revenues	432,791	399,345
Net Income	299,173	274,225
Retained earnings at beginning of year	395,168	120,943
Retained earnings at end of year	\$ 694,341	\$ 395,168

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

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

<u>Increase (Decrease) in Cash</u>	2003	2002
<u>Cash Flows from Operating Activities</u>		
Cash Received from State of Ohio	\$ 812,967	\$ 633,588
Cash Payments to Suppliers for Goods and Services	(371,010)	(337,588)
Cash Payments to Employees for Service	(453,006)	(365,592)
Cash Payments for Employee Benefits	(133,889)	(109,120)
Other Operating Revenue	49,844	43,394
Other Operating Expenditures		
Net Cash Used for Operating Activities	(95,094)	(135,318)
<u>Cash Flows from Noncapital Financing Activities</u>		
Other Grants Received	58,800	128,300
Federal and State Grants	93,219	192,797
Other Non-operating revenue	85,115	63,562
Interest Income	5,215	1,524
Net Cash Provided by Noncapital Financing Activities	242,349	386,183
<u>Cash Flows from Capital and Related Financing Activities</u>		
Prepaid rent	(400)	(2,000)
Acquisition of capital assets	(3,409)	(1,303)
Net Cash Used for Capital and Related Financing Activities	(3,809)	(3,303)
Net Increase in cash	143,446	247,562
Cash beginning of year	409,769	162,207
Cash end of year	\$ 553,215	\$ 409,769
<u>Reconciliation of Operation Loss to Net Cash Used for Operation Activities</u>		
Operating Loss	\$ (133,618)	\$ (125,120)
<u>Adjustment to Reconcile Operating Loss to Net Cash Used for Operation Activities</u>		
Depreciation	12,277	11,280
Changes in Assets and Liabilities		
Increase (Decrease) in Accounts Payable	15,974	(13,453)
(Decrease) in Governmental Payable	(920)	(842)
Increase in Accrued Wages Payable	2,950	3,647
Increase in Compensated Absences	6,749	344
Increase (Decrease) in Contract Payable	1,494	(11,174)
Total Adjustments	38,524	(10,198)
Net Cash Used for Operating Activities	\$ (95,094)	\$ (135,318)

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

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**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Lighthouse Community School, Hamilton County, Ohio (the School), is a State governmental nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades six through twelve who exhibit severe behavioral handicaps, with a curriculum that provides academic credit. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. 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 was approved for operation under contract with the Cincinnati City School District, Hamilton County, Ohio (the Sponsor), for a period of three years commencing July 1, 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a nine-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic growth, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 5 certificated full-time teaching personnel who provided services to 58 students for Fiscal Year 2003.

2. RELATED ORGANIZATION

Seven Board members of the Lighthouse Community School are also Board members of Lighthouse Youth Services, Inc. Lighthouse Community School contracts with Lighthouse Youth Services, Inc. for various management services, including:

1. Utilization of operations and policy manuals, forms, and management procedures, as the same are from time to time developed by Lighthouse Youth Services, Inc.;
2. Assistance in identifying and applying for grants;
3. Financial management;
4. Administrative staff supervision;
5. Human Resource assistance with hiring and benefits management; and
6. Such other management consultant services as are from time to time mutually agreed upon.

Lighthouse Community School paid Lighthouse Youth Services, Inc. \$114,726 as specified in the contract during the fiscal year for these services, all of which has been paid. Lighthouse Youth Services, Inc. paid \$45,000 to Lighthouse Community School for the use of five part-time Instructional Assistants.

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise Accounting

The School uses enterprise accounting to report its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code, Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a capitalization threshold of one thousand dollars. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The School does not possess any infrastructure.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

<u>Assets</u>	<u>Years</u>
Furniture and Equipment	3-5
Computers	3

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 during fiscal year 2003 and \$150,000 during fiscal year 2002 to offset start-up costs of the School. Revenue received from this program is included in non-operating Federal Grants revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2003 school year totaled \$646,535 and for the 2002 school year, the amounts awarded totaled \$559,508.

G. Compensated Absences

Vacation and leave benefits are accrued as a liability at year end if the employee's rights to receive compensation are attributable to services already rendered, and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation and personal time when earned for all employees.

The entire amount of compensated absences is reported as a liability.

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

4. DEPOSITS

At June 30, 2003, the School had \$250 in cash on hand, which is included on the balance sheet of the School as "Petty Cash."

At June 30, 2003, the carrying amount of School's deposits was \$552,966. The bank balance was \$558,124. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining \$458,124 was not insured or collateralized.

At June 30, 2002, the carrying amount of School's deposits was \$409,519. The bank balance was \$414,879. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining \$314,879 was not insured or collateralized.

5. RECEIVABLES

Receivables at June 30, 2003 and 2002 consisted of funds from the School's sponsor, Cincinnati Public Schools, KnowledgeWorks Foundation, and intergovernmental receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs and the current year guarantee of federal funds.

6. FIXED ASSETS

A summary of the School's fixed assets follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Furniture and Equipment	\$40,059	\$36,649
Less: Accumulated depreciation	<u>(32,716)</u>	<u>(20,438)</u>
Net Fixed Assets	<u>\$7,343</u>	<u>\$16,211</u>

There was no construction in progress at June 30, 2003 and 2002.

7. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, the School contracted with Philadelphia Insurance Company for property and general liability insurance. There is a \$1,000 deductible with a \$50,000 limit.

General liability is protected by Philadelphia Insurance Company with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible.

Employee dishonesty is protected by Philadelphia Insurance Company with a \$1,000,000 each claim and in aggregate limit.

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

7. RISK MANAGEMENT (Continued)

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$18,115, \$23,371, and \$16,233 respectively; Ninety-eight percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. For fiscal year 2003, \$724 represents the unpaid contribution and was recorded as a liability.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$30,489, \$27,146, and \$20,891 respectively; Ninety-eight percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. For fiscal year 2003, \$812 represents the unpaid contribution and was recorded as liability.

9. POST EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the board allocates employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$2,345.

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

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levied 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 2003, the minimum pay has been established at \$14,500. For the School, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$12,927.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits was \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, sick and personal leave components are derived from School policies. Teachers, administrators, and classified employees earn up to thirty days of vacation per year, depending upon the position, scheduled hours, and length of service. Accumulated unused vacation time is paid to all employees upon termination of employment. Teachers, administrators, and classified employees earn sick leave at the rate of one day per month. Sick leave may be accumulated up to 12 weeks, or 480 hours, and is not paid out upon termination.

Each full time employee receives two personal days per calendar year. Part time employees receive one personal day per calendar year. If hired after June 30th, employees receive one personal day for that calendar year; if hired after November 1st, employees receive no personal days for that calendar year. Personal days not used at the end of the calendar year are forfeited.

B. Insurance Benefits

The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$10,000 is provided to all certified and noncertified employees.

11. OPERATING LEASE

The School entered into a one-year lease with the YMCA of Greater Cincinnati, Inc. to lease classroom space. The School paid \$28,000 in fiscal year 2003 and \$24,000 in fiscal year 2002. The School has an option to renew the lease for an additional year. The School renewed their lease with the YMCA for fiscal year 2004.

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

12. 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 its financial operations.

13. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could be a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (e.g., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case's oral arguments began on November 18th, 2003.

14. FEDERAL EXEMPT LAWS

Lighthouse Community School has obtained its 501(c)(3) tax exempt status. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status.

15. OTHER GRANTS

Lighthouse Community School was awarded a three-year grant from the Knowledge Works Foundation of \$49,800 (third year of grant) for development and operation of the school.

During fiscal year 2003, the School received a grant from the Segoe Family Foundation of \$5,000 for development and support of a library and a \$4,000 grant from the Elkus Family Foundation for production of a play.

The School's contract with its sponsor, Cincinnati Public Schools, provides for supplemental payments as defined in the contract with the sponsor. The School received \$99,208 during fiscal year 2003 and \$75,404 during fiscal year 2002, based on this contract.

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)**

16. CONTINGENCIES

A. STATE OF OHIO SPECIAL FUNDING FOR COMMUNITY SCHOOLS WITH HIGH LEVELS OF SBH STUDENTS

Legislation was enacted (Section 38 of the Am. Sub. H.B. No. 405) that stipulated that the change in weighted funding for disabled students identified as severe behavior handicapped from FY 2001 to FY 2002 should not result in a loss of funds to community schools with over 50 percent of its student population identified as severe behavior handicapped. Lighthouse Community School received \$200,495 during fiscal year 2003 and \$184,290 during fiscal year 2002 under this special funding and is designated as "FY01 Funding Level Adjustment."

B. 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 are 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

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**Auditor of State
Betty Montgomery**

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

Lighthouse Community School
Hamilton County
1501 Madison Road
Cincinnati, Ohio 45206

To the Board of Trustees:

We have audited the accompanying financial statements of Lighthouse Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2003 and have issued our report thereon dated November 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the School in a separate letter dated November 28, 2003.

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

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

Betty Montgomery
Auditor of State

November 28, 2003



**Auditor of State
Betty Montgomery**

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LIGHTHOUSE COMMUNITY SCHOOL

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
JANUARY 13, 2004**