LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION
SUMMIT COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION
SUMMIT COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Lighthouse Educational Development Corporation
Summit County
1585 Frederick Boulevard, Suite 100
Akron, Ohio 44320

To the Board of Trustees:

We have audited the accompanying financial statements of Lighthouse Educational Development Corporation, Summit County, Ohio, (the School) as of and for the year ended June 30, 2005, 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Educational Development Corporation, Summit County, Ohio as of June 30, 2005, and the changes in its financial position 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 May 16, 2006, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information 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.

Betty Montgomery

Betty Montgomery
Auditor of State

May 16, 2006

Lighthouse Educational Development Corporation

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The discussion and analysis of Lighthouse Educational Development Corporation (Lighthouse) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005 (FY 05). The intent of this discussion and analysis is to look at Lighthouse's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of Lighthouse's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

Total net assets decreased $189,702 in 2005.

Total revenue was $1,549,208 in 2005.

Total program expenses were $1,738,910 in 2005.

Total liabilities increased $100,138 with total assets decreasing $89,564 in 2005.

Lighthouse has no long term debt at June 30, 2005

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lighthouse as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the whole School, presenting both an aggregate view of Lighthouse's finances and a longer-term view of those finances. Lighthouse's financial statements are presented based upon the enterprise method of reporting under GASB. As such, Lighthouse summarizes its financial data as would be expected of a traditional business or corporation.

Reporting Lighthouse as a Whole

Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

The view of Lighthouse as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report Lighthouse's *net assets* and changes in those net assets. This change in net assets is important because it tells the reader that, for Lighthouse as a whole, the *financial position* of Lighthouse has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include Lighthouse's student enrollment, per-pupil funding as determined by the State of Ohio that restricts revenue growth, change in technology, required educational programs and other factors.

Reporting Lighthouse's Financial Statements

The analysis of Lighthouse's financial statements begins on page 7. These financial statements use the accrual basis of accounting.

Lighthouse's major revenue source is the State Basic Aid Foundation. Additional sources of revenue come from federal entitlement programs and miscellaneous state grants.

Lighthouse's activities focus on how money flows into and out of the school and the balances left at year-end available for spending in future periods. Lighthouse reports its financial data using an accounting method called *full accrual*, which measures all *financial assets*. The financial statements provide a detailed snap-shot view of Lighthouse's general government operations and the basic services it provides. This information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Table 1
Net Assets

	Business Type Activities	
	2005	2004
Assets:		
Cash and Other Current Assets	$42,007	$133,061
Capital Assets, Net	110,361	108,871
Total Assets	152,368	241,932
Liabilities:		
Current Liabilities	149,506	48,782
Long Term Liabilities	0	586
Total Liabilities	149,506	49,368
Net Assets:		
Invested in Capital Assets, Net of Debt	109,775	106,151
Unrestricted	(106,913)	86,413
Total Net Assets	$ 2,862	$192,564

Lighthouse as a Whole

Recall that the Statement of Net Assets provides the perspective of Lighthouse as a whole. Table 1 provides a summary of Lighthouse's net assets for 2005 compared to the prior year. Total net assets decreased $189,702. The primary reason for this decrease is that Lighthouse increased its expenses by $271,185 from 2004 to 2005. As a result, total liabilities were up $100,138 from the previous year.

Cash and other current assets decreased from $133,061 in 2004 to $42,007 in 2005. The major reason for this decrease is the payment of previous year liabilities and that current year expenses were greater than current year revenue. After the payment of the intergovernmental receivable was received, the cash was used to pay current year activities.

Total Assets decreased from $241,932 in 2004 to $152,368 in 2005. The reason for the decrease in Total Assets is a greater portion of the State Foundation Grant was received by the end of 2005 than had been in 2004.

Liabilities increased by $100,138. This increase for 2005 is due primarily to enrollment projections not materializing. Staffing was set to meet an enrollment of 180 but the final student FTE was 162. Board policy for FY 05 did not allow for the acceptance of new students after the beginning of the school year with the exception of re-enrolling students. The net impact was a decrease in net assets of $189,702.

Lighthouse Educational Development Corporation

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Community School Activities

The overall revenue generated by a community school is solely dependent upon student enrollment plus the per-pupil allotment given by the State foundation and from the federal entitlement programs. Thus community schools dependence upon legislative and congressional decisions on per-pupil funding hampers revenue growth. Foundation payments made up 83 percent of revenues for Lighthouse in fiscal year 2005. Grant revenues increased substantially primarily due to an overall increase in students from the previous year. Table 2 shows the total cost of services for the past 2 years. That is, it identifies the cost of these services supported by unrestricted State entitlements and restricted state and federal grants.

Table 2
Changes in Net Assets for Business Type Activities

	Business Type Activities	
	2005	2004
Operating Revenues		
Foundation	$1,284,718	$1,037,679
Other Operating Revenue	20,053	$261,763
Non-Operating Revenues		
Interest	860	282
Grants	243,577	192,256
Total Revenues	1,549,208	1,491,980
Operating Expenses		
Salaries	845,468	788,738
Fringe Benefits	253,815	217,557
Purchased Services	528,172	331,875
Materials and Supplies	74,401	70,903
Depreciation	20,129	17,040
Interest	1,765	560
Other Operating Expenses	15,160	41,052
Total Expenses	1,738,910	1,467,725
Total Increase in Net Assets	($189,702)	$24,255

Lighthouse Budgeting Highlights

Community schools are exempt from appropriations law but are required to maintain the finances under the cash basis of accounting as required by Ohio Administrative Code. Budgetary requirements are prescribed by the Ohio Department of Education through each sponsor. Accordingly, Lighthouse's budget is prepared and approved according to a ridged process required by the Lighthouse Board. The Board reviews the budget monthly to stay compliant with its due diligence requirements. Budgets are revised at least once each year to reflect actual data.

Lighthouse's board reviews the financial statements of the school monthly.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, Lighthouse had $110,361 in net capital assets. See Note 6 for additional information.

Liabilities

At June 30, 2005 Lighthouse had $149,506 in total liabilities. Most of this is accrued wages, accounts payable, and intergovernmental payables. Lighthouse has no long term debt at June 30, 2005.

Current Financial Related Activities

The School must look for ways to increase its efficiency and effectiveness. As described on the previous pages, the School has limited means to increase its revenue relative to traditional school districts. Community Schools cannot seek additional funds through levies and is limited to the per pupil revenue. As such, the School must constantly monitor budgets and develop revenue models to accurately anticipate changes in funding and timing of revenue.

Contacting Lighthouse's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of Lighthouse's finances and to reflect Lighthouse's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Joseph W. White Jr., President of the Board, 1585 Frederick Blvd, Suite 100, Akron, OH 44320.

Lighthouse Educational Development Corporation
Statement of Net Assets
June 30, 2005

Assets	
Current	
Cash and Cash Equivalents	$17,803
Receivables:	
Accounts Receivable	689
Intergovernmental Receivable	21,917
Prepaids	1,198
Security Deposit	400
Total Current Assets	42,007
Noncurrent	
Capital Assets:	
Depreciable Capital Assets, net	110,361
Total Noncurrent	110,361
Total Assets	152,368
Liabilities	
Current	
Accounts Payable	51,896
Accrued Wages	49,108
Capital Leases-Current Due	586
Deferred Revenue	240
Intergovernmental Payable	23,676
Loan Payable	24,000
Total Liabilities	149,506
Net Assets	
Invested In Capital Assets, Net of Debt	109,775
Unrestricted	(106,913)
Total Net Assets	$ 2,862

See accompanying notes to the basic financial statements

Lighthouse Educational Development Corporation
Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2005

Operating Revenues	
Foundation	$1,284,718
Food Service	1,074
Miscellaneous	18,979
Total Operating Revenues	1,304,771
Operating Expenses	
Salaries	845,468
Fringe Benefits	253,815
Purchased Services	528,172
Materials and Supplies	74,401
Depreciation	20,129
Other	15,160
Total Operating Expenses	1,737,145
Operating Loss	(432,374)
Non-Operating Revenues (Expenses)	
Interest Income	860
Interest Expense	(1,765)
Grants	243,577
Net Non-Operating Revenues (Expenses)	242,672
Change in Net Assets	(189,702)
Net Assets Beginning of Year	192,564
Net Assets End of Year	$2,862

See accompanying notes to the basic financial statements

Lighthouse Education Development Corporation
Statement of Cash
For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State Foundation	$1,337,921
Other Cash Receipts	44,688
Cash Payments to Employees for Services	(796,990)
Cash Payments for Employee Benefits	(361,186)
Cash Payments for Goods and Services	(473,176)
Other Cash Payments	(3,654)
Net Cash Used in Operating Activities	(252,397)
Cash Flows from Noncapital Financing Activities	
Grants Received	230,095
Cash Flows from Capital and Related Financing Activities	
Loan Proceeds	115,000
Loan Payment	(91,000)
Interest	(1,756)
Capital Asset Purchases	(21,620)
Capital Lease Payments	(2,134)
Net Cash Used in Capital and Related Financing Activities	(1,510)
Cash Flows from Investing Activities	
Interest on Investments	860
Net Decrease in Cash and Cash Equivalents	(22,952)
Cash and Cash Equivalents Beginning of Year	40,755
Cash and Cash Equivalents End of Year	$17,803
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	($432,374)
Adjustments:	
Depreciation	20,129
(Increase) Decrease in Assets:	
State Foundation Receivables	63,940
Intergovernmental Receivable	(8,435)
Accounts Receivable	25,713
Prepaids	358
Increase (Decrease) in Liabilities:	
Accounts Payable	40,382
Accrued Wages	49,108
Intergovernmental Payable	(11,458)
Deferred Revenue	240
Net Cash Used in Operating Activities	($252,397)

See accompanying notes to the basic financial statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Lighthouse Educational Development Corporation d.b.a. Lighthouse Community School and Professional Development Academy (the School) is a school as provided for by Ohio Revised Code Sections 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. 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. 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.

As further described in Note 16 to the financial statements, the School contracted to facilitate the day-to-day operations of Akron Community School which is a legally separate community school which shares three common board members with Lighthouse Academy.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2000 through June 30, 2005. On May 17, 2004, this contract was assigned to the Lucas County Educational Service Center and was extended through June 30, 2006.

The School operates under a self-appointing five-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then-existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has two instructional/support facilities staffed by four non-certified and ten certified full-time teaching personnel who provide services to 162 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the measurement focus.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Equity (i.e. net total assets) is reported as the difference between assets and liabilities. Operating statements present increases (i.e., revenues) and decreases (i.e., 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 utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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 Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow provisions of Ohio Revised Code Section 5705, except for Section 5705.391 as it relates to five-year forecasts and spending plans.

Cash

Cash received by the School is maintained in demand deposit and money market accounts. 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.

Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The School does not possess any infrastructure. Leasehold improvements are also capitalized. 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.

Depreciation of leasehold improvements, computers, vehicles, furniture and equipment is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of $1,000 or more are capitalized.

Estimated useful lives are as follows:

Capital Asset Classification	Years
Equipment and Vehicles	7
Fixtures and Leasehold Improvements	10

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intergovernmental Revenues

The School currently participates in several State and Federal grant programs through the Ohio Department of Education. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. The following are those grant programs in which the School currently participates:

<u>Non-Reimbursable Grants</u>
Management Information Systems
Data Communication
School Net Professional Development
Mentor/Entry Year Planning
Title I
Title II-A
Title IV
Title VI
Title VI-B
Title II-D

<u>Reimbursable Grants</u>
National School Lunch Program

The School also participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Accrued Liabilities

Obligations, such as wages and benefits due but unpaid, are reported as liabilities in the accompanying financial statements.

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.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers"

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

The implementation of each of these new principles did not have any material effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At year-end, the carrying amount of the School's deposits was $17,803 and the bank balance was $27,756. Based on the criteria described in GASB Statement No. 40 "Deposit and Investment Risk Disclosure", all the bank balances were covered by Federal Depository Insurance.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE

All receivables are considered collectible in full, due to the stable condition and the current year guarantee by the State of Ohio. The receivable amount of $21,917 consists of $13,482 of claims submitted by the school to the Ohio Department of Education and an over payment of $8,435 to the School Employees Retirement System.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

A summary of the School's capital assets at June 30, 2005, follows:

Leasehold Improvements	$40,000
Vehicles	40,178
Fixtures and Equipment	88,151
Less: Accumulated Depreciation	(57,968)
Net Capital Assets	$110,361

NOTE 7 - CAPITAL LEASES

In a prior year, the School entered into a capitalized lease for a copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments ($7,509) as of the inception date of the lease.

NOTE 7 - CAPITAL LEASES (Continued)

The following is a schedule of the future minimum lease payments as of June 30, 2005.

Year Ending June 30	Amount
2006	$ 600
Less: Interest	(14)
Present value of future minimum lease payments	$ 586

NOTE - 8 PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Professional Services	$ 76,534
Property Services	38,248
Rent	215,652
Travel and Meetings	37,886
Communications	48,160
Utility Services	14,408
Contracted Services	89,432
Transportation	7,852
Total	$ 528,172

NOTE 9 - RISK MANAGEMENT

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. During fiscal year 2005, the School contracted with a company for property and general liability insurance. Property coverage carries a $2,500 deductible and has a $1,000,000 limit. General liability coverage provides $1,000,000 per occurrence and $1,000,000 in the aggregate with a $2,500 deductible. Settled claims have not exceeded this commercial coverage, nor have there been any significant reductions in coverage in the past three fiscal years.

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

NOTE 10 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits – The School has contracted with a private carrier to provide employee medical/surgical and dental benefits. The School pays 90% of the monthly premiums and the employee is responsible for the remaining 10%. For the fiscal year 2005, the School's and the employee’s premiums varied depending on insurance coverage selected, family size and the ages of those covered. The School also has a Section 125 cafeteria plan available for its employees. This is a pretax voluntary supplementary medical benefits program employee funded and employer administrated. The School provides life insurance to all employees through a private carrier. Coverage in the amount of $15,000 is provided for all certified and non-certified employees.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District 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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were $8,075, $11,518 and $8,871. As of June 30, 2005, 95 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

The School District 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 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 DC Plan and the DB 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 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.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District 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 recommendation 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 District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were $99,039, $77,365 and $56,533; 97 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

NOTE 12 - POST EMPLOYMENT BENEFITS

The School District 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 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 retirees who participated in the DB or combined plans and their 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. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled $7,618 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid $3,621 to fund health care benefits, including the surcharge.

NOTE 12 - POST EMPLOYMENT 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - RENTAL AND SERVICE AGREEMENTS

In prior years, the School entered into a lease agreement with Kids-Play, Inc. covering the period August 16, 2001 through August 15, 2004 to use a part of their building for School operations. The lease was subsequently renewed through June 15, 2006. The School paid Kids-Play, Inc. $87,596 for use of these facilities during fiscal year 2005.

Kids-Play, Inc. also provides food services for the School's students. The School paid Kids-Play, Inc. $24,203 for this service during fiscal year 2005. This agreement remained in effect through August 15, 2004 and was renewed through June 15, 2006. The School pays Kids-Play on a per child per meal basis and is reimbursed through the National School Lunch program.

The School will be consolidating its operations for the 2007 fiscal year to one building. The rental and food service contract with Kids-Play, Inc. was not renewed.

NOTE 14 - CONTINGENCIES

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 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. 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, 2005.

LITIGATION – A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the state constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

ENROLLMENT FTE - The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Based on ODE's review, $3,244 is recorded as a payable based upon adjustments to the DPIA program and enrollment review during fiscal year 2005. The effect of any other reviews cannot be determined.

NOTE 15 - 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.

NOTE 16 – MANAGEMENT AGREEMENT

On August 22, 2004, the School contracted with Akron Community School (ACS) to facilitate day-to-day operations of ACS. This includes adopting the educational curriculum, providing teaching, developing and maintain state mandated testing and requirements, and completing all required administrative reports. The School will also initiate purchases and approve expenses made by ACS and maintain ACS's accounting records.

ACS suspended operations at the end of the 2004 fiscal year and was inactive during fiscal year 2005. The contract between ACS and their Sponsor (Lucas County Educational Service Center) expired on June 30, 2005 and was not renewed. With ACS's failure to obtain a new sponsor for the 2006 fiscal year, ACS officially closed as of July 1, 2005. As such, the management agreement with Lighthouse Educational Development Corporation also terminated on July 1, 2005.

NOTE 17 – RELATED PARTY TRANSACTIONS

Three members of the School's Board of Trustees were also members of the ACS governing board during fiscal year 2005.

During fiscal year 2005, a $25,000 cash loan was given by ACS to Lighthouse Academy of which $24,000 remains outstanding at June 30, 2005 and is reflected on the Statement of Net Assets as "Loan Payable". There is no written agreement specifying an interest rate or repayment requirements for this loan.

Also, during 2005, Akron Community School paid certain expenses totaling $548 which should have been paid by Lighthouse Academy in accordance with the management agreement (Note 16). In addition, the State FTE review resulted in an additional $10,000 of Foundation Revenue overpayments to Akron Community School from past fiscal years. Since Akron Community School paid this revenue to Lighthouse Academy as a management fee, this revenue is due back ACS. These amounts are reflected on the Statement of Net Assets as part of accounts payable.

The School also had an accounts receivable of $410 due from ACS from the prior fiscal year that remains unpaid at June 30, 2005.

NOTE 17 – RELATED PARTY TRANSACTIONS (Continued)

Summary of amounts due to and due from ACS at June 30, 2005 are as follows:

	June 30, 2005
Accounts Receivable	$(410)
Accounts Payable	10,548
Loan Payable	24,000
Net Amount Due to Akron Community School	$34,138

NOTE 18 – SUBSEQUENT EVENTS

On December 6, 2005 the Sponsor, Lucas County Educational Service Center, notified the School of the non-renewal of the sponsor contract which expires June 30, 2006. On March 17, 2006, the School signed a Memorandum of Agreement with the Richland Academy of Arts to sponsor the School for a five year period beginning on July 1, 2006. On May 16, 2006, the contract remaining with Lucas County Educational Service Center was assigned to Richland Academy of Arts effective June 1, 2006. The School is currently in process of negotiating its five-year contract with Richland Academy of the Arts.

In an effort to reduce operating costs, for the 2007 fiscal year, the School will be closing its downtown campus and consolidating its operations to its west campus. They also are discontinuing their sixth through eight grade classes for the 2007 fiscal year and reducing staffing.

Auditor of State
Betty Montgomery

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

Lighthouse Educational Development Corporation
Summit County
1585 Frederick Boulevard, Suite 100
Akron, Ohio 44320

To the Board of Trustees:

We have audited the financial statements of Lighthouse Educational Development Corporation, Summit County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 16, 2006. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2005-001.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the School's management dated May 16, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-002. In a separate letter to the School's management dated May 16, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

May 16, 2006

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

Reportable Condition

Disbursements

During our testing of disbursement transactions, we noted many weaknesses with the accounting and processing of non-payroll and payroll expenditures. These problems included, but were not limited to; lack of sufficient documentation, credit/debit purchases without detail receipts, loss of supporting documentation, inconsistent filing of supporting documents, and no apparent business purpose of certain transactions. Further, we noted that the accounting office for the School was disorganized. Financial documents were stacked on tables and the floor rather than being filed, mail remained unopened, and teaching materials and financial information were commingled. This disorganization made it difficult for management to locate documentation required for the audit and lead to inefficiencies in the audit process resulting in additional audit fees.

During our testing, we noted the following specific concerns with respect to non-payroll and payroll disbursements:

- We tested a total of 546 non-payroll disbursements, of this, 60 payments were made without supporting documentation such as approved invoices or other approved documents for all items purchased. Some documentation consisted only of a handwritten unsigned, unapproved note. In addition, invoices were not consistently signed by the person receiving the goods or services indicating that all of the merchandise billed was received. This increases the possibility of paying for goods or services not received.

  The School should require sufficient approved supporting documentation for all expenses. The person receiving the goods/services should initial the invoice to indicate all of the merchandise/goods billed were received. If an invoice is received which does not include such approval, some type of assurance of receipt should be received by the fiscal officer prior to processing of the payment. This practice would help ensure the vendors are paid only for the goods or services the School actually received.

- We noted numerous charges for meals during the audit period. 36 of 56 of direct meal charges tested did not document the business purpose of the meal and 18 did not include an itemized meal receipt. As such, it is difficult for management to ensure the meal expense was for a proper business expense and that public money was not used to purchase alcoholic beverages or other inappropriate items.

- We noted 9 payments that were overdue some of which incurred late fees.

  The School should establish procedures to process expenses to ensure all expenses are paid in a timely manner to avoid overdue and late fees.

- The business purpose of certain expenses was not always apparent. Some explanations often were vague, such as “student activity”.

  The School should clearly document the business purpose of all expenses.

FINDING NUMBER 2005-001 (Continued)

- Two checks were payable to "Cash". One for $100 during the audit period and one for $500 shortly after the audit period. The School should avoid making checks payable to "Cash". Petty cash reimbursements should be made payable to "Petty Cash", followed by the name of the authorized custodian of the petty cash fund.

- The payee on the check and the purpose in the memo section of the check did not always match the documentation and the ledger entry information.

  The fiscal officer should always match the supporting documentation information to the check prior to signing the check. The accounting personnel should always compare the supporting documentation, check, and ledger information after entering data in the accounting system.

- There were numerous instances where documentation was not filed consistently (i.e. filed under the first name of a person; filed under the restaurant name, when in fact it was a reimbursement). Also the corresponding check number(s) were not always documented on the invoice(s). Inconsistent filing and failure to document the paying check number on the invoice makes it difficult for management to locate and review documentation of expenses.

  Expense documentation including check copies, and all supporting invoices should be filed in a reasonable and consistent method.

- Voided checks were not kept on file with the canceled checks to maintain the integrity of check number sequence and accountability for all checks.

  The School should either maintain a separate file for voided checks or file the voided checks in sequence with the canceled checks.

- Several purchases included sales tax. The School is exempt from sales tax and has a sales tax exemption form.

During our testing of payroll disbursements, we noted the following:

- The School made payroll advances to various employees. This is not standard business practice for public entities and could result in loss of public funds. This practice should be avoided.

- Approved employee timesheets were not always filed with the appropriate pay period. In addition, certain timesheets did not always have physical evidence they were reviewed and approved by the employee's supervisor. Timesheets should be filed by a reasonable method so they may be easily accessed by management. In addition, physical evidence (i.e. supervisor's signature) of the review and approval should appear on the timesheet.

- Certain employees were permitted to carry negative leave balances. This could result in payment for time that may not have been earned if the employee leaves before sufficient leave time is accumulated to cover the deficit.

All of these accounting and organizational issues may lead to overall inefficiencies in the operation of the School, possible unknown fund deficits, and could compromise the Schools ability to continue as a viable business.

Officials' Response: See Finding Number 2005-002.

FINDING NUMBER 2005-002

Material Noncompliance

Ohio Rev. Code Section 5705.391 and 3314.03(A)(11)(d) requires community schools to prepare five year projections of revenues and expenditures. Most of the guidance on how to prepare these projections is found in Ohio Admin. Code Section 3301-92-04. The plan must be submitted to the Department of Education upon the adoption of an annual appropriation measure, but no later than October 31st, of any fiscal year.

To meet this requirement, community schools must submit the Five Year Budget Forecast available at: http://www.ode.state.oh.us/community_schools/Documents/fi_documents.asp.

The School did not submit its five year projections of revenues and expenses to the Ohio Department of Education during fiscal year 2005. The School should submit this projection as required.

Officials' Response: To correct the various weaknesses with the accounting and processing of non-payroll and payroll expenditures, the School has hired the accounting firm of Varney, Fink & Associates, Inc. as of January 1, 2006.

Since that time, the following actions have been taken regarding Finding Number 2005-001:

- For non-payroll items purchased, a purchase order must be filled out and signed by an authorized person. Detailed receipts must accompany any approved reimbursement request.
- Procedures were established to process expenses to reasonably ensure that expenses are paid in a timely manner avoiding overdue and late fees.
- Checks are not made out to "Cash."
- The accounting personnel reviews the supporting documentation, check and ledger information and properly files the documentation.
- Voided checks are maintained in a separate file.

Concerning payroll disbursements:

- Timesheets are reviewed and approved by the principal of the School and kept with the corresponding payroll.
- Employees are not allowed to carry negative leave balances. Gross pay is reduced for any used time off in excess of accumulated balance.

The Board plans to implement the following policies:

- The receiver of goods must initial the invoice indicating that all of the merchandise/goods billed were received or the fiscal officer must initial the invoice prior to the processing of the bill.
- Meal charges must include the business purpose and itemized receipt.

FINDING NUMBER 2005-002 (Continued)

Expenses must be properly marked with the exact business purpose.

- Inform all vendors at time of purchase of the tax-exempt status of the School.
- Payroll advances will not be approved.

Actions taken regarding Finding Number 2005-002:

- A five year forecast has been filed with the State for fiscal year 2006.

Auditor of State
Betty Montgomery

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LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION

SUMMIT 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 20, 2006