CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY
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INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Lighthouse Community School
Cuyahoga County
1701 East 12th Street
Cleveland, Ohio 44114

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Cleveland Lighthouse Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Cleveland Lighthouse Community School, Cuyahoga County, Ohio, as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The School incurred a net loss of $290,252 for the year ended June 30, 2008 and accumulated a total net deficit of $785,388 as of June 30, 2008. Management's plan in regards to these matters is described in Note XIII.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2010, 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, 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, which consisted 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 16, 2010

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008

The discussion and analysis of Cleveland Lighthouse Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements to enhance their understanding of the School's financial performance.

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

Financial Highlights
Key financial highlights for FY2008 include the following:

- The school has deficit in net assets totaling ($785,388) after its first three years of operations. The deficits were attributable to lower enrollment during the startup periods, increased costs in student transportation, employee benefits, and facilities. The losses have been financed through unsecured loans from and deferred payments of management fees and interest expense payable to Lighthouse Academies, Inc. (a non-profit Charter Management Organization CMO).
- In 2007, the school moved to a downtown location with a ten year lease. As part of the lease the landlord paid approximately $494K of the improvements. The total cost of the improvements exceeded $960K. The landlord increased the annual rent to finance $91K of the improvements and the school borrowed $400K from City First Bank of D.C. The loan was guaranteed through a credit enhancement instrument issued by Charter School Development Corporation. The note is due June 1, 2009, is payable at a fifteen year amortization with interest at the bank's CD rate plus 2 points.
- During the first three years of operations, the school acquired some of its textbooks, furniture and computers through a sub-lease agreement with Lighthouse Academies, Inc. In that agreement the school received new property with a cost of $330K and paid rental payments of $130K. The term of the lease(s) are payable over 13 quarters at a lease factor of .0884 with the right to purchase at fair market value, not to exceed 10% of cost.
- Operating expenses were $2,970,920, with the largest expenses being purchased services of $2,823,702. Purchased services including instructional $1,167,724, administrative $501,397 support staffing $49,713; third party transportation $375,310, rent and other occupancy costs $362,307, food services $207,052, and staff recruitment and development of $160,199. The staff members are employees of Lighthouse Academies Inc and as part of the contract reimbursed by the school.

- Non-operating revenues of $465,266 were mostly federal awards including; USDA National School Lunch and Breakfast Programs $159,996; and Title I $235,087.

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2008. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statements of Net Assets for fiscal years ended June 30, 2008 and 2007.

Assets:	2008	2007
Current Assets:		
Cash	$91,028	$46,566
Due from Other Governments	90,402	50,311
Accounts Receivable	1,243	15,240
Prepaid Expenses	0	19,870
Total Current Assets	182,673	131,987
Non-Current Assets:		
Security Deposit	22,000	22,000
Capital Assets, net of depreciation	319,958	359,958
Total Non-Current Assets	341,958	381,958
Total Assets	524,631	513,945

Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	265,867	170,698
Loans Payable	1,044,152	149,435
Total Current Liabilities	1,310,019	320,133
Long Term Liabilities:		
Loans Payable	0	688,948
Total Long Term Liabilities	0	688,948
Total Liabilities	1,310,019	1,009,081
Net Assets:		
Invested in Capital Assets, Net of Related Debt	(62,508)	(40,000)
Unrestricted	(722,880)	(455,136)
Total Net Assets	(785,388)	(495,136)
Total Liabilities and Net Assets	$524,631	$513,945

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2008.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2008 and 2007.

	2008	**2007**
Revenues		
Foundation and Assistance Revenues	$2,215,402	$1,113,387
Total Operating Revenues	2,215,402	1,113,387
Federal and State Grants	446,528	492,755
Other Operating Revenues	18,738	582,432
Total Non-operating Revenues	465,266	1,075,187
Total Revenues	2,680,668	2,188,574

Expenses		
Purchased Services	2,823,702	2,055,002
Materials and Supplies	43,448	271,074
Interest Expense	47,593	27,892
Depreciation	40,000	40,000
Other Operating Expenses	16,177	16,950
Total Liabilities	2,970,920	2,410,918
Net Loss	(290,252)	(222,344)
Net Assets (Deficit) at Beginning of the Year	(495,136)	(272,792)
Net Assets (Deficit) at End of the Year	($785,388)	($495,136)

The cumulative losses have been financed principally by Lighthouse Academies, Inc. Below are the sources to finance the cumulative deficits that existed as of June 30, 2008 and 2007, respectively. Included in the operating expenses are accrued interest and management fees payable to Lighthouse Academies, Inc, but for the most part went unpaid in accordance with terms of a deferred management fee agreement.

	2008	**2007**
Debt existing at year end financing the cumulative deficit balances:		
Startup loan with Lighthouse Academies, Inc (LHA)	230,000	230,000
Bank loan in excessive of book value of improvements	62,508	35,276
Unpaid Interest LHA loans	35,688	10,351
Operating Loan LHA	150,000	120,000
Deferred LHA Fees	281,686	93,148
Amounts financed by LHA	759,882	488,775
Other working capital deficit funded by accrued expenses	25,506	6,361
Amount provided for	$785,388	$495,136

Current Financial Issues

Cleveland Lighthouse Community School opened in the fall of 2005. In its initial three years of operation it had deficits totaling $785K. This deficit has been funded with loans and deferral of fees and interest on loans by its CMO, Lighthouse Academies, Inc. (LHA). Starting with fiscal year 2009, the school's financial plan, in conjunction with its CMO, will have a balanced budget through change in management, higher enrollment through re-enrollment, lower cost for student busing by providing their own transportation, funding for transportation provided for by the state and local districts, and lower payroll costs by a change in the health insurance company and 401k plan amendment.

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CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement of Net Assets
As of June 30, 2008

Assets:	
Current Assets:	
Cash	$91,028
Due from Other Governments	90,402
Accounts Receivable	1,243
Total Current Assets	182,673
Non-Current Assets:	
Security Deposit	22,000
Capital Assets, net of depreciation	319,958
Total Non-Current Assets	341,958
Total Assets	524,631
Liabilities:	
Current Liabilities:	
Accounts Payable and Accrued Expenses	265,867
Loans Payable	1,044,152
Total Current Liabilities	1,310,019
Total Liabilities	1,310,019
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(62,508)
Unrestricted	(722,880)
Total Net Assets	(785,388)

See Accompanying Notes to the Basic Financial Statements

CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement Of Revenues, Expenses And Changes In Net Assets For The Fiscal Year Ended June 30, 2008

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$2,215,402
Total Operating Revenues	2,215,402
Operating Expenses:	
Purchased Services	2,823,702
Materials and Supplies	43,448
Interest Expense	47,593
Depreciation	40,000
Other Operating Expenses	16,177
Total Operating Expenses	2,970,920
Operating Loss	(755,518)
Non-Operating Revenues:	
Federal and State Grants	446,528
Other Non-Operating Revenues	18,738
Total Non-Operating Revenues	465,266
Net Loss	(290,252)
Net Assets at Beginning of Year	(495,136)
Net Assets at End of Year	($785,388)

See Accompanying Notes to the Basic Financial Statements

CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement Of Cash Flows
For The Fiscal Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	$ 2,244,247
Cash paid to employees and vendors for goods and services	(2,627,174)
Net cash used for operating activities	(382,927)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Repayment of bank loan	(12,768)
Federal grants received	381,216
Cash received from other operating revenue	20,720
State grants received	8,221
Loan from Lighthouse Academies Inc.	30,000
Net cash provided by noncapital financing activities	427,389
NET INCREASE IN CASH	44,462
CASH - Beginning of year	46,566
CASH - End of year	$ 91,028

See Accompanying Notes to the Basic Financial Statements

CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement Of Cash Flows
For The Fiscal Year Ended June 30, 2008

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITES:

Operating Loss:	$ (755,518)
Depreciation	40,000
Change in Assets and Liabilities---	
Decrease in Due from Other Governments	17,520
Decrease in Accounts Receivable	11,495
Decrease in Prepaid Expenses	19,870
Increase in Note Payable for Deferred Fees	188,537
Increase in Accounts Payable and Accrued Expenses	95,169
NET CASH USED FOR OPERATING ACTIVITIES	$ (382,927)

See Accompanying Notes to the Basic Financial Statements

I. Description of the School and Reporting Entity

Cleveland Lighthouse Community School (CLCS) is a nonprofit corporation established on December 5, 2003 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On January 4, 2007, CLCS received its determination letter from the Internal Revenue Service that it is tax exempt under section 501(c)(3) of the Internal Revenue Code effective August 18, 2005. Management is not aware of any course of action or series of events that have occurred that might adversely affect CLCS's tax-exempt status. CLCS, which is part of Ohio's education program, is independent of any school district. CLCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CLCS.

On April 27, 2005, CLCS was approved for operation under a contract between the Governing Authority of CLCS and ASHE Culture Center, Inc. (ASHE) as their sponsor. Under the terms of the contract ASHE will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of CLCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XI for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on August 12, 2005 under the name Cleveland Lighthouse Charter Community School – East and legally changed the name in 2007 to Cleveland Lighthouse Community School.

CLCS operates under a five-member Board of Trustees. 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 goals, performance standards, admission standards, and qualification of teachers. CLCS controls one instructional facility staffed by thirteen certificated full time teaching personnel who provide services to two hundred eighty-five students.

CLCS entered into an agreement with Lighthouse Academies, Inc. (LHA), a Delaware nonprofit educational organization, to provide educational and administrative services for the fiscal year. See footnote XI for additional information regarding LHA. The board members of CLCS are also board members Villaview Lighthouse Community School, formerly named Cleveland Lighthouse Charter Community School – West.

II. Summary of Significant Accounting Policies

The financial statements of CLCS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. CLCS 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 CLCS' accounting policies are described below.

1. 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.

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. CLCS prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which CLCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied.

II. Summary of Significant Accounting Policies (Continued)

2. Measurement Focus and Basis of Accounting (Continued)

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

For fiscal year 2008, CLCS has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units," GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.”

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

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 plans.

The implementation of GASB Statements Nos. 39, 40, 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements for CLCS.

II. Summary of Significant Accounting Policies (Continued)

3. Cash

All monies received by CLCS are deposited in demand deposit accounts. Total cash for CLCS is presented as "Cash" on the accompanying Statement of Net Assets. Cash as of June 30, 2008 represents bank deposits which are covered by federal depository insurance.

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 CLCS prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. CLCS will from time to time adopt budget revisions as necessary.

5. Due from Other Governments

Due from Other Governments as of June 30, 2008, consisted of intergovernmental receivables arising from grants and entitlement totaling $90,402. These receivables are considered collectable in full. CLCS has the following Federal Grants which are Due from Other Governments:

Due from Other Governments	Amount
IDEA	$ 21,863
School lunch	11,523
Title I	57,016
Total Federal Grants Due from Other Governments	$ 90,402

6. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid expenses 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.

II. Summary of Significant Accounting Policies (Continued)

7. Security Deposit

Security deposits are amounts paid pursuant to a lease agreement and to be refunded in future periods in accordance with the terms of the lease.

8. 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. All items with a useful life of one year or greater and a value of $5,000 or more are 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. Estimated useful lives are as follows:

Capital Asset Classification	**Years**
Computers and Office Equipment	3
Leasehold Improvements	10
Furniture, Equipment & Materials	10

9. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. CLCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

10. Intergovernmental Revenues

CLCS currently participates in the State Foundation Program and the Poverty Based Assistance (PBA) program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

II. Summary of Significant Accounting Policies (Continued)

10. Intergovernmental Revenues (Continued)

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

CLCS also participates in the Public Charter Schools Program, Title I, Title II(a), Title II(d), Title IV, Title V, the School Breakfast Program, and the National School Lunch Program. These are federal awards passed through the Ohio Department of Education. Revenues received from these programs are recognized as non-operating revenue on the accompanying financial statements. A summary of Intergovernmental Revenues is as follows:

Intergovernmental Revenues	Amount
State Foundation and Poverty Based Assistance	$2,215,402
State EMIS Grant	1,600
State Lunch	3,857
State Breakfast	2,763
PCSP Program	-230
Special Education Grants	34,326
Title I	235,087
Title II(a)	6,455
Title II(d)	1,008
Title IV	1,310
Title V	357
USDA Breakfast	50,952
USDA Lunch	109,043
Total Intergovernmental Revenues	$2,661,930

11. Other Non-Operating Revenues

Other operating revenues consist of revenues from students for uniforms and after school care, and other grants and refunds from insurance recovery.

II. Summary of Significant Accounting Policies (Continued)

12. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, CLCS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum amount of one hundred twenty days. CLCS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

13. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

III. Deposits

At fiscal year end June 30, 2008, the carrying amount of CLCS's deposits was $91,028 and the bank balances were $122,507. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, $100,000 of CLCS's bank balance was covered by the Federal Deposit Insurance Corporation and not exposed to custodial credit risk.

Custodial credit risk is the risk that in the event of bank failure, CLCS's deposits may not be returned. All deposits are co1llateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specified collateral held at the Federal Reserve Bank in the name of CLCS.

CLCS has no deposit policy for custodial risk beyond the requirements of State Statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with CLCS or a qualified trustee by the financial

III. Deposits (Continued)

institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being pledged.

IV. Capital Assets

A summary of capital assets at June 30, 2008 follows:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Being Depreciated:				
Leasehold Improvements	$399,958	$0	$0	$399,958
Total Capital Assets Being Depreciated:	$399,958	$0	$0	$399,958
Less Accumulated Depreciation:				
Leasehold Improvements	(40,000)	(40,000)	0	(80,000)
Total Accumulated Depreciation:	(40,000)	(40,000)	0	(80,000)
Total Capital Assets, Net of Accumulated Depreciation	$359,958	(40,000)	$0	$319,958

V. Purchased Services

The employees of CLCS are actually employed by CLCS's management firm (Lighthouse Academies, Inc) and their salaries and fringe benefits are included with Purchased Services. Purchased Services include the following, including staff and vendors:

Instruction	$1,167,724
Administrative	501,397
Staff development	160,199
Pupil Support Services	49,713
Occupancy Costs	362,307
Transportation	375,310
Food Services	207,052
Total	$2,823,702

VI. Operating Leases

CLCS leases its facilities at Reserve Square, 1701 East 12th St, Cleveland Ohio from Reserve Apartments, Ltd. under a ten year lease agreement effective July 1, 2006 and expiring June 30, 2016. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2008, the monthly rent was $19,870 until March 1, 2008 when rent increased to $22,652 per month. The lease also provides that CLCS will pay $22,000 for a security deposit at the time the lease was signed. During fiscal year 2008 rents totaled $249,574. Future minimum rental payments are as follows:

2009	$209,259
2010	282,291
2011	287,523
2012	292,754
2013 and thereafter	1,223,333

VII. Risk Management

1. Property and Liability Insurance

CLCS 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 2008, CLCS contracted with Philadelphia Insurance Company for all of its' insurance.

General liability is covered at $1,000,000 single occurrence limit and $2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at $1,000,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

CLCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2008 there have been no claims filed by CLCS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Vision Benefits

CLCS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to CLCS for insurance benefits was $182,076.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

Plan Description - CLCS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and CLCS is required to contribute at an actuarially determined rate. The current CLCS rate is 14 percent of annual covered payroll. A portion of CLCS's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. CLCS's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $66,996, $23,648 and $4,062 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

2. State Teachers Retirement System

Plan Description - CLCS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888)227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. CLCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employees.

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. CLCS's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were $75,480, $53,349, and $17,759 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were $75,480 made by CLCS and $53,914 made by the plan members.

3. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, no members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

IX. Post-Employment Benefits

1. School Employee Retirement System

Plan Description – CLCS participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

IX. Post-Employment Benefits (Continued)

1. School Employee Retirement System (Continued)

In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was $35,800.

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

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CLCS's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $6,665, $7,351, and $2,340 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. CLCS's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were $14,466, $15,537, and $7,875 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

2. State Teachers Retirement System

Plan Description – CLCS contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. CLCS's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $5,391, $3,810, and $1,268 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

X. Contingencies

1. Grants

CLCS 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 of CLCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of CLCS at June 30, 2008.

2. 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. For the year ended June 30, 2008, there was a downward adjustment of $11,845 to revenue received from the state for FY08.

XI. Sponsorship and Management Agreement

CLCS entered into an agreement with Ashe Culture Center, Inc. to provide sponsorship and oversight services as required by law. Sponsorship fees are calculated as 3% of state funds received by CLCS, from the State of Ohio. For the year ended June 30, 2008 the total sponsorship fees totaled $63,707 and all amounts have been paid.

XI. Sponsorship and Management Agreement

CLCS entered into an agreement with Lighthouse Academies, Inc., a nonprofit organization, (LHA) to provide educational and operational management, legal, financial, and business management services for the fiscal year 2008. The agreement is for a five period with renewal if the charter renews. Management fees are calculated as 7.5% of CLCS's revenues, excluding money for the food program. This fee is subordinated to the landlord's lease payments and payable after the school year. For the year ended June 30, 2008 management fees totaled $188,537 with no amounts having been paid at year end, $188,537 as a long term loan.

XII. Related Parties

The members of the CLCS Board of Trustees are also members of Villaview Lighthouse Community School, formerly known as Cleveland Lighthouse Charter Community School – West. CLCS contracts with LHA for educational, operational, legal, financial and business management services and two LHA employees serve on CLCS's Board of Trustees.

XIII. Management Plan

For fiscal year 2008, CLCS had an operating loss of $755,518, a net loss of $290,252, and a net asset deficit of $785,388. CLCS will have a balanced budget in 2009, excluding the contractual management fees accrued to Lighthouse Academies, Inc. which has allowed CLCS to pay the fees when it has the cash flow. CLCS has new leadership which plans to encourage community involvement in order to increase and retain student enrollment. CLCS also plans to provide some of their own transportation services in order to lower transportation costs. Once enrollment increases and transportation costs decrease, it should allow CLCS to reduce its operating losses and begin reducing the cumulative net deficit.

XIV. Debt Obligations

	Balance 6/30/07	Additions	Reductions	Balance 6/30/08	Amount Due within Year
Loan Payable	$ 230,000	$ -	$ -	$ 230,000	$ 230,000
Loan Payable	120,000	30,000	-	150,000	150,000
Loan Payable	395,234	-	(12,768)	382,466	382,466
Loan Payable	93,149	188,537	-	281,686	281,686
Total	$ 838,383	$ 218,537	$ (12,768)	$ 1,044,152	$1,044,152

The Loan Payable for $230,000 is a demand loan in the form of a promissory note payable to Lighthouse Academies, Inc. (LHA), which is CLCS's management firm, and is payable at the end of the charter term.

The Loan Payable for $150,000 is an Operating Loan in the form of a promissory noted payable to LHA. This is payable when CLCS has available cash for repayment. No specific repayment date is required. CLCS has made no payments in FY 08 but intends to pay it off in three years.

XIV. Debt Obligations (Continued)

The Loan Payable for $400,000 is from City First Bank of DC to CLCS for leasehold improvements made to property leased by CLCS. The amortization schedule requires CLCS to make principal and interest payments through FY 2009. On June 1, 2009 a balance of $372,075 is due which CLCS intends to refinance.

The Loan Payable for $281,686 is a liability to CLCS's management firm (LHA) for unpaid management fees.

XV. Subsequent Events

In July, 2008 the common Board of Trustees for Cleveland and Villaview Community Schools agreed to share space at 1701 East 12th St.

In July, 2009, the school changed its name from Cleveland Lighthouse Community School to Cleveland Community School.

In June, 2009 the Board of Trustees of Cleveland Community School and Lighthouse Academies Inc mutually agreed to terminate the Lighthouse service agreement. This became effective August, 2009. The Board agreed to discontinue the use of the Lighthouse name.

As part of the termination of the Lighthouse contract the Board agreed to make rental payments to Lighthouse under an equipment use agreement in exchange for continued use of Lighthouse property. The school has not made payments and as a result a lawsuit was filed by Lighthouse Academies for debt owed under loans instruments, use agreements, and service contracts. The lawsuit was filed in January 2010.

In July 2009, CLCS was in negotiations with the bank on renewing the facility loan.

In July 2009 CLCS was in negotiations with the landlord on reducing the rent.

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

Cleveland Lighthouse Community School
Cuyahoga County
1701 East 12th Street
Cleveland, Ohio 44114

To the Board of Trustees:

We have audited the basic financial statements of Cleveland Lighthouse Community School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2008, wherein we noted the School incurred a net loss of $290,252 for the year ended June 30, 2008 and accumulated a net deficit of $785,388 as of June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

We noted certain matters that we reported to the School's management in a separate letter dated March 16, 2010.

Compliance and Other Matters

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 16, 2010

CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 13, 2010

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