



**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY
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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We were engaged to audit the accompanying basic financial statements of Villaview Lighthouse Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the School's management.

The School's management declined to provide written representations related to the financial records and supporting documentation in the School's possession.

Because management did not provide written representations required by auditing standards generally accepted in the United States, we were unable to express, and we do not express, an opinion on the accompanying financial statements for the year ended June 30, 2009.

The School's legal counsel did not provide us with the description and evaluation of any pending contingent liabilities as directed by ABA Statement of Policy Regarding Lawyer's Responses to Auditor's Request for Information. Therefore, we were unable to determine whether their response might have included evidence requiring adjusting or disclosing contingent legal liabilities.

We also noted the following departures from accounting principles generally accepted in the United States:

Many of the amounts reported on the Statement of Cash Flows were misstated, including:

- Cash Flows from Operating Activities;
- Cash Flows from Noncapital Financing Activities;
- Changes in Accrued Wages and Benefits; and
- Changes in Accounts Receivable

In addition, the following note disclosures were inaccurate:

- Defined Benefit Pension Plan;
- Post-Employment Benefits; and
- Subsequent events.

In June 2009, the Board of Trustees of the School and Lighthouse Academies Inc. mutually agreed to terminate the management agreement. In January 2010, Lighthouse Academies sued the School for unpaid management fees in the amount of \$ 212,184. While the Statement of Net Assets includes these amounts as liabilities that are due within one year, the School has not yet paid this to Lighthouse Academies. The ultimate outcome of this matter is undeterminable, and the notes do not disclose this matter.

We also noted that during the year ended June 30, 2009, the School suffered a net loss in the amount of \$55,426 and accumulated a net asset deficit of \$929,288.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 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 and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information 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. We did not audit the information and express no opinion on it. However, we noted that certain amounts that should have been derived from the basic financial statements did not agree to the amounts reported in the statements.



Mary Taylor, CPA
Auditor of State

May 19, 2010

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Our discussion and analysis of the Villaview Lighthouse Community School (the VLCS) financial performance provides an overall review of the VLCS's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the VLCS's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the VLCS's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new 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 Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the VLCS for the 2008-09 school year are as follows:

- Total assets decreased by \$318,704 or 96%. Cash and cash equivalents decreased by \$47,183.
- Total liabilities decreased by \$475,462, or 39% from 2008.
- Total net assets increased by \$156,757.
- Total operating revenues were \$565,274. Total operating expenses were \$567,183.

USING THIS ANNUAL REPORT

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the VLCS did financially during fiscal year 2009. 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 includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the VLCS's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the VLCS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the VLCS's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The VLCS uses enterprise presentation for all of its activities.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

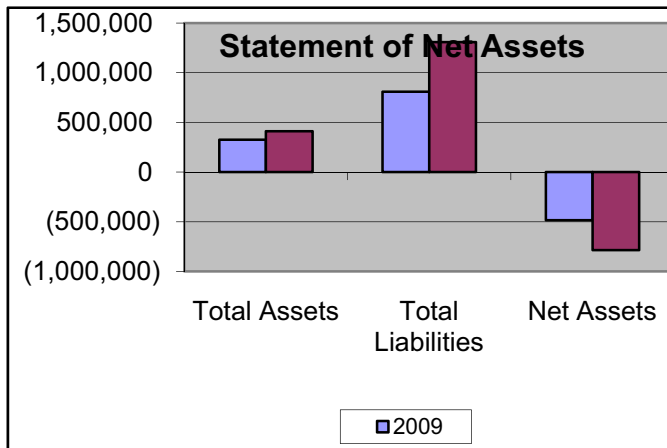
Statement of Net Assets

The Statement of Net Assets answers the question of how the VLCS did financially during 2009. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the VLCS's net assets for fiscal years 2009 and 2008.

**Table 1
Statement of Net Assets**

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets	\$ 13,338	\$ 332,042
Total Assets	13,338	332,042
Liabilities		
Current Liabilities	104,705	417,105
Debt Obligations	837,922	788,799
Total Liabilities	942,627	1,205,904
Net Assets		
Total Net Assets	\$(929,289)	\$(873,862)



Net assets increased by \$156,757 or 18% from 2008. The primary reduction in liabilities is a result of the deferred charges on Lighthouse Academies, Inc. fees payable.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2009 and 2008, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the VLCS as a whole, the financial position of the VLCS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

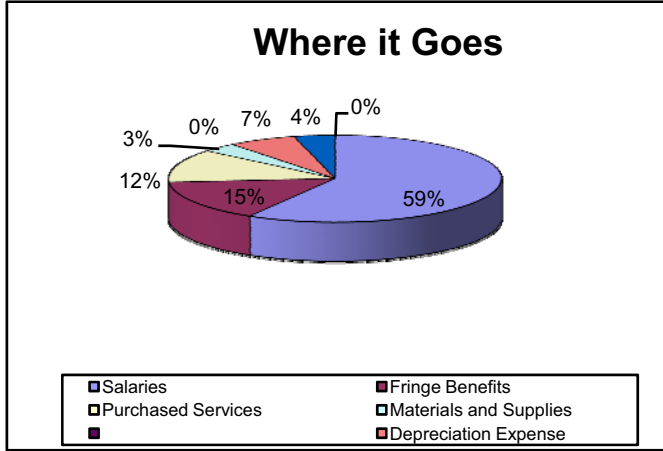
**Table 2
Change in Net Assets**

	<u>2009</u>	<u>2008</u>
Operating Revenue :		
State Foundation	\$542,153	\$ 1,680,500
Classroom Materials & Fees	136	1,708
Uniforms		10,014
Food Service		1,735
Other Operating	22,985	7,697
Total Operating Revenues	565,274	1,701,654
Operating Expenses :		
Salaries	256,222	865,244
Fringe Benefits	132,386	379,590
Purchased Services	311,083	1,308,047
Materials and Supplies	15,611	172,482
Depreciation	-	-
Capital Outlay	64,064	240,630
Other Operating		1,349
Total Operating Expenses	779,366	2,967,342
Operating (Loss)	(214,092)	(1,265,687)
Non-Operating Revenues and (Expenses)		
Federal and State Grants	(55,426)	610,013
Total Non-Operating Revenues	(55,426)	610,013
Increase (Decrease) in Net Assets	\$ (269,518)	\$ (655,674)

Operating revenues decreased \$1,136,380, which represents a 66.8% decrease from 2008, due to the reduction in enrollment. Operating expenses decreased by \$1,263,778, which represents an 81% decrease from 2008.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
(UNAUDITED)



BUDGETING HIGHLIGHTS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor.

The contract between the VLCS and its Sponsor does prescribe a budgetary process. The VLCS has developed a one year spending plan and a five-year forecast that is reviewed semi-annual by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of

Education, annually.

DEBT OBLIGATIONS

The VLCS has debt obligations, due within one year, comprised of loans totaling \$837,922 at June 30, 2009. See Note 14 of the notes to the basic financial statement for further details.

CONTACTING THE VLCS'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the VLCS's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Edward E. Dudley, Sr. CPA, MBA, of LED Consulting, 676 Brook Hollow, Gahanna, Ohio 43230 or e-mail at ed@eddudleycpa.com.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY

Statement of Net Assets
June 30, 2009

Assets

Current Assets:

Cash and Cash Equivalents	\$ 415
Accounts Receivable	<u>12,923</u>
Total Current Assets	<u>13,338</u>

Liabilities

Current Liabilities:

Accounts Payable	\$ 103,058
Intergovernmental Payable	1,646
Debt Obligations:	
Due within one year	<u>837,922</u>
Total Current Liabilities	<u>942,626</u>

Total Liabilities \$ 942,626

Net Assets

Unrestricted	<u>(929,288)</u>
Total Net Assets	<u>\$ (929,288)</u>

See accompanying notes to the basic financial statements

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2009**

<u>Operating Revenues:</u>	
State Foundation	\$542,153
After School Care	136
Other Operating	22,985
Total Operating Revenues	\$565,274
 <u>Operating Expenses:</u>	
Salaries	256,222
Fringe Benefits	132,386
Purchased Services	311,083
Materials and Supplies	15,611
Capital Outlays	64,064
Total Operating Expenses	779,366
 Operating Loss	 (214,092)
 <u>Non-Operating Revenues (Expenses):</u>	
Federal and State Grants	158,666
 Total Non-Operating Revenues	 158,666
 Change in Net Assets	 (55,426)
 Net Assets Beginning of Year	 (\$873,862)
 Net Assets End of Year	 \$ (929,288)

See accompanying notes to the basic financial statements

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$542,153
Cash Received from Other Operating Sources	23,121
Cash Payments to Suppliers for Goods and Services	(311,083)
Cash Payments to Employees for Services	(256,222)
Cash Payments for Employee Benefits	(132,386)
Other Cash Payments	<u>(71,432)</u>

Net Cash Used for Operating Activities (\$205,849)

Cash Flows from Noncapital Financing Activities

Cash Received from Operating Grants	158,666
Cash Received from Contributions and Donations	<u>-</u>

Net Cash Provided by Noncapital Financing Activities 158,666

Net Decrease in Cash and Cash Equivalents (47,183)

Cash and Cash Equivalents Beginning of Year 47,598

Cash and Cash Equivalents End of Year \$ 415

See accompanying notes to the basic financial statements

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009
(Continued)

Provided by (Used in) Operating Activities

Operating Gain (Loss)	\$ (214,092)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in Assets and Liabilities:

Accounts Receivable	12,922
Accrued Wages and Benefits	(4,679)

Net Cash Provided by (Used in) Operating Activities	<u>\$ (205,849)</u>
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See accompanying notes to the basic financial statements

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

1. DESCRIPTION OF THE ENTITY

Villaview Lighthouse Community School, (the VLCS) is a nonprofit corporation established on June 22, 2006 pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. The VLCS qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the VLCS's tax-exempt status.

The VLCS, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The VLCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the VLCS. The VLCS was approved for operation under a contract with Ohio State Board of Education for a period of five years commencing on June 26, 1999.

On May 17, 2007, the VLCS legally changed its name from Cleveland Lighthouse Charter Community School – West to Villaview Lighthouse Community School.

On April 18, 2006 VLCS was approved for operation under a contract between the governing authority of VLCS and Ashe Culture Center, Inc. (the Sponsor), as their sponsor. Under the terms of the contract the Sponsor will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or termination the contract prior to expiration

The VLCS operates under the direction of 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 populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers.

VLCS entered into an agreement with Lighthouse Academies, Inc. (LHA), a Delaware nonprofit educational organization, to provide educational and administrative services for the fiscal year. The board members of VLCS are also board members of Cleveland Lighthouse Community School, formerly named Cleveland Lighthouse Charter Community School – East

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial Statements of the VLCS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental 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 more significant of the VLCS's accounting policies are described below.

A. Basis of Presentation

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

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

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

D. Cash and Cash Equivalents

All monies received by the VLCS are maintained in a demand deposit account. For internal accounting purposes, the VLCS segregates its cash. The VLCS has no investment.

E. 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.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

<u>Asset</u>	<u>Useful Life</u>
Furniture, Equipment and Materials	10 years
Computers and Office Equipment	3 years
Leasehold Improvements	10 years

The VLCS has an asset capitalization threshold policy of \$5,000. At June 30, 2009, the VLCS had no depreciable assets.

G. Intergovernmental Revenues

The VLCS currently participates in the State Foundation Program; Revenues received from this program are recognized as operating revenues 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 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 VLCS must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the VLCS on a reimbursement basis.

The VLCS also participates in various federal and state programs through the Ohio Department of Education.

Under the above programs the VLCS received \$700,819 this fiscal year.

H. Compensated Absences

Vacation is taken in a manner in which corresponds with the school calendar; therefore VLCS 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 the maximum amount of one hundred-twenty days. VLCS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick leave is made since unused sick leave is not paid to employees upon separation.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. As of June 30, 2009 accounts payable was \$103,058.

J. Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which the VLCS receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 VLCS must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the VLCS on a reimbursement basis.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets⁰, 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 through external restriction imposed by creditors, grantors, or law and regulations of other governments. The VLCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the VLCS. For the VLCS, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the VLCS. Revenue and expenses not meeting this definition are reported as non-operating.

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The VLCS maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2009, the book amount of the VLCS's deposits was \$415 and the bank balance was \$627.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

3. CASH AND CASH EQUIVALENTS (Continued)

The VLCS had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the VLCS or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2009, none of the bank balance was exposed to custodial credit risk.

The total bank balance was insured by the (FDIC) up to \$250,000. Deposits in excess of \$250,000 are secured by pooled collateral. The VLCS had no investments.

4. EDUCATIONAL FACILITY LEASE

The VLCS leases its facility at Reserve Square, 1701 East 12th Street, Cleveland, Ohio, from Reserve Apartment, Ltd. Under a ten year lease agreement effective July 1, 2006, is expiring June 30, 2016. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2009, the VLCS paid \$30,652 in rental payments. This amount is recorded and reflected in the Statement of Revenue, Expenses and Change in Fund Net Assets, as purchase services.

5. RISK MANAGEMENT

A. Property & Liability

The VLCS 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 the fiscal year 2009, the VLCS contracted with Markel Insurance Company for all of its insurance.

B. Workers' Compensation

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

6. DEFINED BENEFIT PENSIONS PLANS

A. State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description – The VLCS contributes to the VLCS Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. 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 contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/Audit Resources.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

A. State Teachers Retirement System of Ohio (STRS Ohio) (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the VLCS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The VLCS contributions to SERS for the year ended June 30, 2009, 2008 and 2007 were \$46,827, 6,066 and 5,706, respectively, which equaled the required contributions each year.

Plan Description – The VLCS contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member'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 DB Plan and the DC Plan.

In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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.

B. School Employees Retirement System (SERS Ohio)

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

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

B. School Employees Retirement System (SERS Ohio) (Continued)

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The VLCS 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 employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The VLCS's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$48,013, \$40,755 and \$43,916 respectively, of which 100% has been contributed.

The above is the latest information available.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the VLCS Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the VLCS Retirement System. As of June 30, 2009, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

7. POST-EMPLOYMENT BENEFITS

A. School Employee Retirement Systems

In addition to a cost-sharing multiple-employer defined pension plan the VLCS Employees Retirement System of Ohio (SERS) administers two post employment benefit plans.

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2009, the actuarial required allocation is .75 percent The VLCS's contributions for the years ended June 30, 2009, 2008 and 2007 were \$3,864, \$3,238, and \$1,906.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

7. POST-EMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For the fiscal year June 30, 2009, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. . The VLCS's contributions assigned to health care for the years ended June 30, 2009, 2008 and 2007 were zero.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' website www.ohsers.org under Employers/Audit Resources

B. State Teachers Retirement System

Plan Description – The VLCS 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.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

7. DEFINED BENEFIT PENSIONS PLANS (Continued)

B. State Teachers Retirement System (Continued)

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. The VLCS's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$3,693, \$3,155, and \$3,378 respectively all of which has been contributed for all fiscal years.

The above is the latest information available.

8. CONTINGENCIES

A. Grants

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

B. Litigation

There are currently no matters in litigation with the VLCS as defendant.

C. Full-Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the VLCS. These reviews are conducted to ensure the VLCS is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review has not been performed for the fiscal year 2009, as of June 30, 2009.

9. SPONSORSHIP- Ashe' Culture Center, Inc.

The VLCS contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by VLCS from the State of Ohio. For the fiscal year ended June 30, 2009 the total sponsorship fees totaled \$16,265.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

10. MANAGEMENT COMPANY- Lighthouse Academies, Inc.

The VLCS entered into an agreement with Lighthouse Academies, Inc, (LHA), a nonprofit organization, to provided educational and operational management, legal, financial and business management services for the fiscal year 2009. The agreement is for a five year period with renewal if the charter renews. Management fees are calculated as seven and half percent of the VLCS revenues, excluding money received from the school lunch program. This fee is subordinate to the landlords' lease payments and payable after the school year. For the year ended June 30, 2009, LHA deferred fees totaling \$212,189.

11. PURCHASED SERVICES

For the period of July 1, 2008 through June 30, 2009, the VLCS made the following purchase services commitments.

	<u>2009</u>
Professional and Technical Services	234,414
Property Services	78,809
Contractual Trade Services*	(72,129)
Pupil Transportation	<u>69,989</u>
	<u>\$ 311,083</u>

12. RELATED PARTIES

The members of the VLCS Board of Trustees are also members of the Villaview Lighthouse Community School. VLCS contracts with LHA for educational, operational, legal, financial and business management services.

13. EMPLOYEE BENEFITS

The VLCS provides medical, dental, vision, and life insurance benefits to most employees. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the agreement with the employee.

14. START-UP FUNDING

The Ohio Department of Education provided the VLCS with start-up monies totaling \$230,585 for the period ending June 30, 2009. These monies were expended on various venders. At June 30, 2009, all monies had been expended.

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

15. DEBT OBLIGATIONS

The following table summarizes the debt obligations for the fiscal year ended June 30, 2009.

	Obligations			Obligations	Due
	at			at	Within
	6/30/2008	Additions	Reductions	6/30/2009	One Year
Revolving Loan LHA	\$ 241,618	\$ -	\$ -	\$ 241,618	\$241,618
Operating Loan- LHA	104,120	-	-	104,120	104,120
Deferred Rent	280,000	-	-	280,000	280,000
Loan Payable	163,061	49,123		212,184	212,184
Total Obligation	\$ 788,799	\$ 49,123	\$ -	\$ 837,922	\$837,922

The loan payable for \$241,618 is a demand loan in the form of a promissory note payable to Lighthouse Academies, Inc (LHA), which is the School's management firm and is payable at the end of the charter term.

The loan payable for \$104,120 is an operating loan in the form of a promissory note payable to LHA. This is payable when the School has available cash for repayment. No specific repayment date is specified. The School intends to retire the debt within two year. There is not payment schedule on this obligation.

The loan payable for \$280,000 is a liability to the School's management firm (LHA) for unpaid rents. Additional management fees totaling \$212,184, included a beginning balance of \$163,061, is owed LHA for the fiscal year ended June 30, 2009, and is also reported in the Statement of Net Assets as part of the current debt obligation at June 30, 2009. There is no payment schedule on this obligation.

These obligations are due within one year.

16. SUBSEQUENT EVENTS

At June 30, 2009, the management contract between the School and Lighthouse Academies, Inc. expired. The School has not obtained another management firm.

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Trustees:

We were engaged to audit the basic financial statements of Villaview Lighthouse Community School, Cuyahoga County, (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated May 19, 2010, wherein we disclaimed an opinion on these statements because we did not obtain certain representations from School's management. Legal counsel did not respond to our request for information concerning any legal contingent liabilities. We also noted the following departures from accounting principles generally accepted in the United States:

1. There were misstated amounts on the Cash Flow Statement,
2. The following note disclosures were inaccurate:
 - a. Defined Benefit Pension Plan;
 - b. Post-Employment Benefits; and Subsequent Events.
3. The notes omitted disclosure of a lawsuit for unpaid fees owed to its management company (though the statement of net assets includes this liability)
4. We also noted the School incurred a net loss of \$55,426 and accumulated a total net asset deficit of \$929,288 as of June 30, 2009.

Internal Control Over Financial Reporting

In planning and performing our engagement 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.

We consider finding 2009-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is also a material weakness.

We noted certain matters that we reported to the School's management in a separate letter dated May 19, 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 did note certain noncompliance or other that we reported to the School's management in a separate letter dated May 19, 2010.

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



Mary Taylor, CPA
Auditor of State

May 19, 2010

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2009

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

Finding Number	2009-001
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Financial Reporting – Material Weakness

Section 2200.102 and 2300.106 of the Codification of Governmental Accounting and Financial Reporting Standards provides the minimum requirements for general purpose external financial reporting as follows:

- Management's Discussion and Analysis;
- Basic financial statements which include
- Statement of Net Assets;
- Statement of Revenues, Expenditures, and Changes in Net Assets;
- Statement of Cash Flows; and
- Note disclosures

Although the School prepared the above noted financial statements and notes, many of the amounts reported in the Management's Discussion and Analysis did not agree with the financial statements. Also, amounts reported on the Statement of Cash Flows, specifically Cash Flows from Operating Activities and Noncapital Financing Activities are inaccurate. We were unable to agree Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities. Therefore, the Statement of Cash Flows does not provide accurate information about how the Academy finances and meets its operating cash flow needs.

The Notes to the Financial Statements were inaccurate. The defined benefit pension plan and post-employment benefits note disclosures were inaccurately reported. In addition, the subsequent event footnote was inaccurately reported.

We recommend the School review the note disclosures required by the Codification of Governmental Accounting and Financial Reporting Standards to ensure complete disclosures are made.

We did not receive a direct response from school officials for the finding above.

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Mary Taylor, CPA

Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Trustees:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Villaview Lighthouse Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting in July 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

The policy did not include the following requirements:

- (1) A procedure for reporting prohibited incidents;
- (2) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (3) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (4) A procedure for documenting any prohibited incident that is reported;
- (5) A procedure for responding to and investigating any reported incident;
- (6) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (7) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Trustees and School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 19, 2010



Mary Taylor, CPA
Auditor of State

VILLAVIEW 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
JUNE 29, 2010