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**LIGHTHOUSE COMMUNITY SCHOOL**

Basic Financial Statements

Year ended June 30, 2011

With Independent Auditors' Report





# Dave Yost • Auditor of State

Board of Directors  
Lighthouse Community School  
401 E. McMillan Street  
Cincinnati, Ohio 45206

We have reviewed the *Independent Auditors' Report* of the Lighthouse Community School, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lighthouse Community School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 29, 2011

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Lighthouse Community School:

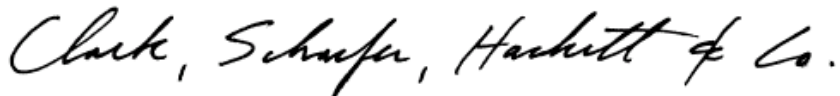
We have audited the accompanying statement of net assets of the Lighthouse Community School (the School), as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on the 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Lighthouse Community School as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2011, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Cincinnati, Ohio  
October 18, 2011

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**LIGHTHOUSE COMMUNITY SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
Unaudited

The discussion and analysis of the Lighthouse Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard 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**

- In total, net assets increased \$9,626, which represents a 2 percent increase from 2010.
- Total assets increased \$16,551, which represents a 3 percent increase from 2010. The School's investments increased \$52,093, while accumulated depreciation on capital assets increased \$39,012.
- Liabilities increased \$6,925, which represents a 11 percent increase from 2010. Accounts Payable increased \$3,705 and accrued liability for vacation and personal leave increased \$4,270.

**Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

**Statement of Net Assets**

The Statement of Net Assets answers the question, "How did we do financially during 2011?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.



**LIGHTHOUSE COMMUNITY SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
Unaudited

Table 1 provides a summary of the School's net assets for fiscal year 2011 and fiscal year 2010:

(Table 1)  
**Net Assets**

	2011	2010
<b>Assets</b>		
Current Assets	\$517,645	\$462,082
Capital Assets, Net	140,303	179,315
Total Assets	657,948	641,397
<b>Liabilities</b>		
Current Liabilities	61,829	59,174
Non-Current Liabilities	7,909	3,639
Total Liabilities	69,738	62,813
<b>Net Assets</b>		
Invested in Capital Assets	140,303	179,315
Unrestricted	447,907	399,269
Total Net Assets	\$588,210	\$578,584

- Total assets increased \$16,551. This increase was due to the increase in the FY11 grants due from the Ohio Department of Education that was paid in July and August 2011.

Table 2 shows the changes in net assets for fiscal year 2011 and fiscal year 2010, as well as a listing of revenues and expenses.

**LIGHTHOUSE COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

(Table 2)  
**Change in Net Assets**

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Foundation Payments	\$354,350	\$399,027
State Special Education Program	283,099	290,059
FY01 Funding Level Adjustment	117,277	122,663
Other	10,711	11,663
Non-Operating Revenues:		
Federal and State Grants	306,272	256,648
Funding from School sponsor	120,000	120,000
Interest	48	122
Investment Earnings	55,030	19,376
Other	56,157	58,398
Total Revenues	<u>1,302,944</u>	<u>1,277,956</u>
Operating Expenses		
Salaries	552,113	534,817
Fringe Benefits	156,816	149,854
Purchased Services	502,218	476,616
Materials and Supplies	28,844	37,958
Depreciation	39,012	39,909
Other Expenses	14,315	14,089
Total Expenses	<u>1,293,318</u>	<u>1,253,243</u>
Increase in Net Assets	<u><u>\$9,626</u></u>	<u><u>\$24,713</u></u>

Net assets increased from 2011 to 2010 by \$9,626. Total revenues increased \$24,988, due an increase of federal and state grants.

**LIGHTHOUSE COMMUNITY SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
Unaudited

**Fixed Assets**

At the end of fiscal year 2011 the School had \$29,042 invested in furniture, fixtures, and equipment and \$339,465 in leasehold improvements.

(Table 3)  
**Fixed Assets at June 30, 2011**  
**(Net of Depreciation)**

	2011	2010
Furniture, Fixtures, and Equipment	29,042	29,042
Leasehold Improvements	339,465	339,465
Less: Accumulated Depreciation	(228,204)	(189,192)
Totals	\$140,303	\$179,315

For more information on capital assets see Note 6 to the basic financial statements.

**Current Financial Issues**

The Lighthouse Community School was formed in 2000. During the 2010-2011 school year, there was an average of 63 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2011 amounted to \$10,118 per student.

For Fiscal year 2011, enrollment increased from 62.33 FTE's (FY2010) to 63.37 FTE's (FY2011).

**Contacting the School's Financial Management**

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Judith A. Oakman, Chief Financial Officer at Lighthouse Community School, 401 E. McMillan St., Cincinnati, Ohio 45206 or e-mail at [joakman@lys.org](mailto:joakman@lys.org).

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2011**

**Assets**

**Current Assets**

Cash	\$ 83,621
Petty Cash	250
Investments	365,777
Accounts Receivable	32,750
Intergovernmental Receivable	34,080
Prepaid Expenses	1,167
Total Current Assets	<u>517,645</u>

**Non-Current Assets**

Capital Assets (Net of Accumulated Depreciation)	<u>140,303</u>
Total Assets	<u><u>\$ 657,948</u></u>

**Liabilities**

**Current Liabilities**

Accounts payable	\$ 10,872
Intergovernmental payable	5,768
Contract payable	22,210
Accrued Wages and Benefits	22,979
Total Current Liabilities	<u>61,829</u>

**Non-Current Liabilities**

Compensated absences payable	<u>7,909</u>
Total Liabilities	<u>69,738</u>

**Net Assets**

Investment in Capital Assets	140,303
Unrestricted	447,907
Total Net Assets	<u>588,210</u>
Total Liabilities and Net Assets	<u><u>\$ 657,948</u></u>

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

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Operating Revenues**

Foundation payments	\$ 354,350
State special education program	283,099
FY01 funding level adjustment	117,277
Other	10,711
<b>Total Operating Revenues</b>	<b>765,437</b>

**Operating Expenses**

Salaries	552,113
Fringe Benefits	156,816
Purchased Services	
Contract Services	132,161
Rent & Utilities	83,195
Occupancy Costs	53,576
Equipment	10,436
Management Fees	99,000
Food Service	8,318
Other purchased services	115,532
Supplies and materials	28,844
Depreciation	39,012
Other	14,315
<b>Total Operating Expenses</b>	<b>1,293,318</b>

Operating Profit/(Loss) (527,881)

**Non-operating Revenues**

Federal Grants	263,613
State Grants	42,659
Cincinnati Public School	120,000
Donations	56,157
Interest Earnings	48
Gain on Investments	55,030
<b>Total Non-Operating Revenues</b>	<b>537,507</b>

Change in Net Assets 9,626

Net Assets Beginning of year	578,584
Net Assets End of year	<b>\$ 588,210</b>

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

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Increase (Decrease) in Cash**

**Cash Flows from Operating Activities**

Cash Received from Others	\$ 10,711
Cash Received from Foundation Payments	354,350
Cash Received from Disadvantaged Pupil Impact Aid	400,376
Cash Payments to Suppliers for Goods and Services	(550,000)
Cash Payments to Employees for Service	(541,963)
Cash Payments for Employee Benefits	(155,668)
Net Cash Used for Operating Activities	<u>(482,194)</u>

**Cash Flows from Noncapital Financing Activities**

Donations	56,157
Federal and State Subsidies Received	289,890
Other Non-operating revenue	156,791
Net Cash Provided by Noncapital Financing Activities	<u>502,838</u>

**Cash Flows from Investing Activities**

Sale of Investments	2,937
Interest	48
Net Cash Provided by Investing Activities	<u>2,985</u>

Net Increase in Cash 23,629

Cash beginning of year 60,242

Cash end of year \$ 83,871

**Reconciliation of Operating Loss to Net Cash Provided by  
(Used for) Operating Activities**

Operating Loss \$ (527,881)

**Adjustment to Reconcile Operating Loss to Net Cash  
Used for Operation Activities**

Depreciation	39,012
Changes in Assets and Liabilities	
Increase in Prepaid Expenses	(250)
Increase in Accounts Payable	3,705
Decrease in Intergovernmental Payable	(3,122)
Increase in Accrued Wages Payable	10,150
Increase in Compensated Absences	4,270
Decrease in Contract Payable	(8,078)
Total Adjustments	<u>45,687</u>

Net Cash Used for Operating Activities \$ (482,194)

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Lighthouse Community School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades six through twelve. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Lighthouse Community School qualifies as an exempt organization under Section 501c (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 school's tax exempt status.

The School was approved for operation under contract with the Cincinnati Public School District, Hamilton County (the Sponsor) for a period of four years commencing July 1, 2000. There was a one-year renewal for the 2004-2005 school year. The contract was subsequently approved through August 22, 2008 and extended through August 22, 2011. In August 2011 the contract was once again extended through August 14, 2014. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of an eleven-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 6.6 non-certified and 7.5 certificated full time teaching personnel who provide services to 63 students.

**NOTE 2 – RELATED ORGANIZATION**

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

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Lighthouse Community School paid Lighthouse Youth Services, Inc. \$99,000 as specified in the contract during the fiscal year for these services, all of which has been paid.

In October 2004, New Life Properties, Inc. an affiliated organization bought the school building on Desmond Avenue. An annual lease is signed between the two parties, in which the School pays annual rent and assumes utility and maintenance costs of the building.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lighthouse Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict or contradict GASB pronouncements. However, the School has elected not to follow any FASB guidance after November 30, 1989. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**B. 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. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.



**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

**E. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Improvements 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. All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture, Fixtures, and Equipment	3 – 5 years
Computers	3 years
Leasehold Improvements	10 years

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**F. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees. The School does not pay sick leave benefits upon termination or retirement.

**G. Net Assets**

Net assets represent the difference between the assets and liabilities. Investments in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. The School has no debt.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**I. 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 those estimates.

**NOTE 4 – DEPOSITS**

At fiscal year end, the carrying amount of the School's deposits was \$83,621, and the bank balance was \$101,737. Of the bank balance, all is covered by federal depository insurance.

The School considers cash and investments under 30 days to be liquid. The School's investments at June 30 consisted of mutual funds invested with Morgan Stanley, valued at their fair market value of \$365,777. The School has no interest bearing investments.

The School's investments are protected by the Securities Investor Protector Corporation (SIPC) against losses caused by the financial failure of the broker-dealer. SIPC was created by the Securities Investor Protections Act of 1970 and is neither a government nor a regulatory authority, but a nonprofit, membership corporation, funded by its

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

member securities broker-dealers. Customers of a failed firm receive all securities registered in their names or in the process of being so registered. Customers receive, on a pro rata basis, all remaining customer cash and securities held by the firm.

After the above distribution, SIPC funds are available to satisfy the remaining claims of each customer, up to a maximum of \$500,000, including up to \$100,000 on claims for cash (as a distinction from claims for securities). Any remaining assets after payment of liquidation expenses may be available to satisfy any remaining portion of customer claims on a pro rata basis with other creditors.

**NOTE 5 – RECEIVABLES**

Receivables at June 30, 2011, consisted of accounts and governmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Title II-D	\$ 46
Title I	17,777
Title I School Improvement	6,469
Title I School Improvement ARRA	8,107
Title I ARRA	<u>1,681</u>
Total All Intergovernmental Receivables	<u>\$34,080</u>

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011:

	Balance 07/01/10	Additions	Deletions	Balance 06/30/11
Capital Assets Being Depreciated				
Leasehold Improvements	\$339,465	-	-	339,465
Furniture, Fixtures, and Equipment	<u>29,042</u>	<u>-</u>	<u>-</u>	<u>29,042</u>
	368,507	-	-	368,507
Less Accumulated Depreciation:				
Leasehold Improvements	(165,069)	(36,939)	-	(202,008)
Furniture, Fixtures, and Equipment	<u>(24,123)</u>	<u>(2,073)</u>	<u>-</u>	<u>(26,196)</u>
	(189,192)	(39,012)	-	(228,204)
Capital Assets, Net	<u>179,315</u>	<u>(39,012)</u>	<u>-</u>	<u>140,303</u>

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 7 – RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the School contracted with Philadelphia Insurance Company for general liability and property insurance and Philadelphia Insurance Company for educational errors and omissions insurance.

Coverages are as follows:

Building and Contents (\$500 deductible)	\$1,000,000
Business Personal Property (\$500 deductible)	100,000
Educational Errors and Omissions	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

There has been no significant change in insurance coverage from last year. Settled claims have not exceeded commercial coverage in either of the past three years.

**Worker’s Compensation**

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

**NOTE 8 – DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement Pension**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability and survivor 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 can be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS’ Retirement Board. The Retirement Board

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81%. The remaining 2.19% of the 14% employer contribution rate was allocated to the Health Care and Medicare B Funds. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$9,831, \$26,929, and \$30,797, respectively, which equaled the required contributions each year.

**State Teachers Retirement System of Ohio**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a state-wide, cost sharing, multiple-employer public employee retirement system for licensed teachers and other faculty members employed by the School District. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the STRS Ohio, 275 East Broad St., Columbus, OH 43215-3371.

New members have a choice of three retirement plans. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan, and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" allocation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchase credit) time the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service credit over 31

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final years will be calculated at 2.5% instead of 2.2%.

Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Under the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination or reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs, and partial reimbursements of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouse and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage of up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$60,134, \$42,443, and \$31,853, respectively; 90% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

**NOTE 9 – POSTEMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits provisions and the obligations to contribute are established by the Systems based on authority granted by state statute.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for years ended June 30, 2011, 2010, and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The School District's contribution to STRS Ohio allocated to post-employment health care for the years ended June 30, 2011, 2010, and 2009 were approximately \$4,295, \$3,302, and \$2,230 each year; 90% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

SERS administers two post-employment benefit plans:

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*Medicare Part B Plan* – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit 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 B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS’ reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocated a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required was .76%. The School District contributions for the years ended June 30, 2011, 2010, and 2009 were approximately \$747, \$1,462, and \$1,672, respectively, which equaled the required contributions each year.

*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 care plan or program. SERS offers several types of health care 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 pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS’ post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remained of the employer 14% contribution to the Health Care Fund. At June 30, 2011, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provide that no employer shall pay a health care surcharge greater than 2% of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School’s contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were approximately, \$1,061, \$885, and \$1,012, respectively.

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



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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 10 – EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Directors. Administrators and classified staff earn up to thirty days of vacation per year, depending upon the position, scheduled hours, and length of service. Teachers receive eight weeks of paid leave during the summer break and earned two weeks of vacation each year, to be used during the school work year. Accumulated unused vacation time is paid to all employees upon termination of employment, but sick leave is not paid.

Each full-time employee receives three personal days per calendar year. Part-time employees receive one personal day per calendar year. If hired after June 30<sup>th</sup>, an employee receives one personal day; if hired after November 1<sup>st</sup>, an employee would receive no personal days for that calendar year. Personal days not used at the end of the calendar year are exchanged for sick leave hours.

Teachers, administrators, and non-certified employees earn sick leave at a rate of 2.46 hours per period. Sick leave may be accumulated up to a maximum of 480 hours.

**B. Insurance Benefits**

The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$10,000 is provided to all certified and non-certified employees. Health and Dental insurance coverage is provided through Anthem and Dental Care Plus.

**NOTE 11 – NON-CURRENT LIABILITIES**

The activity of the School’s non-current liabilities is summarized as follows:

	<u>Outstanding 7/1/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 6/30/11</u>	<u>Due Within One Year</u>
Compensated absences payable	\$ 3,639	7,909	(3,639)	7,909	7,909

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**NOTE 12 – CONTINGENCIES**

**A. Grants**

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, and such disallowed claims will not have a material adverse effect on the overall financial position of the School as of June 30, 2011.

**B. Other Grants**

The School's contract with its sponsor, Cincinnati Public Schools, provides for supplemental payments as defined in the contract with the sponsor. The School received \$120,000 during the fiscal year 2011, based on this contract.

**C. State Funding**

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. Schools are selected randomly. These reviews ensure the schools are reporting accurate student enrollment to the State, upon which state foundation funding is calculated. The last review performed for the School was done in 2008.

Legislation was enacted that stipulated that the change in weighted funding for the disabled students identified as severe behavior handicapped from FY01 and subsequent years not result in a loss of funds to community schools with over 50 percent of its student population identified as severe behavior handicapped. Lighthouse Community School received \$117,277 during fiscal year 2011 under this special funding and is designated at "FY01 Funding Level Adjustment."

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Lighthouse Community School:

We have audited the financial statements of the Lighthouse Community School (the School) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance And Other Matters

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

We noted certain matters that we reported to management of the School in a separate letter dated October 18, 2011.

This report is intended solely for the information and use of management, the Board of Directors, the Ohio Auditor of State and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
October 18, 2011

### Independent Accountants' Report on Applying Agreed-Upon Procedure

Lighthouse Community School  
Hamilton County  
401 East McMillan Street  
Cincinnati, Ohio 45206

To the Board of Directors:

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

1. We noted the School amended its anti-harassment policy at its meeting on September 28, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
October 18, 2011

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# Dave Yost • Auditor of State

LIGHTHOUSE COMMUNITY SCHOOL

HAMILTON COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 13, 2011