

**Mary Taylor, CPA**  
Auditor of State



**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
TABLE OF CONTENTS**

Independent Accountants' Report .....	1
Management's Discussion and Analysis .....	3
Statement of Net Assets as of June 30, 2009 .....	7
Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended June 30, 2009 .....	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2009.....	9
Notes to the Basic Financial Statements.....	11
Schedule of Federal Awards Receipts and Expenditures .....	23
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	24
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	25
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	27
Schedule of Findings .....	29
Independent Accountants' Report on Applying Agreed-Upon Procedures .....	31

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Lighthouse Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Trustees:

We were engaged to audit the accompanying basic financial statements of Cleveland 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:

The amount recorded as "due within one year" in the Statement of Net Assets is incorrect.

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 Current Liabilities;
- Changes in Current Debt Obligations; and
- Changes in LHA Revolving Loan.

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 \$ 450,477. 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 Academy suffered a net loss in the amount of \$232,206 and accumulated a total net asset deficit of \$1,017,595.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 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.

We conducted our engagement to opine on the School's financial statements. The Schedule of Federal Awards Receipts and Expenditures presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the School's financial statements. For the reasons stated in the second paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the School, as of June 30, 2009, or its changes in financial position or its cash flows for the year then ended. Therefore we are unable to express, and we do not express, an opinion on the Schedule of Federal Awards Receipts and Expenditures.



**Mary Taylor, CPA**  
Auditor of State

May 18, 2010

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

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

Our discussion and analysis of the Cleveland Lighthouse Community School (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2009. 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 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 School for the 2008-09 School year is as follows:

- Total assets decreased by \$183,737 or 36%.
- Total liabilities increased by \$34,785 or 3% from 2008.
- Total net assets increased by \$167,700, or 20%.
- Total operating revenues were \$1,863,331. Total operating expenses were \$2,648,128.

**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 School 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 School'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 School 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 School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

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

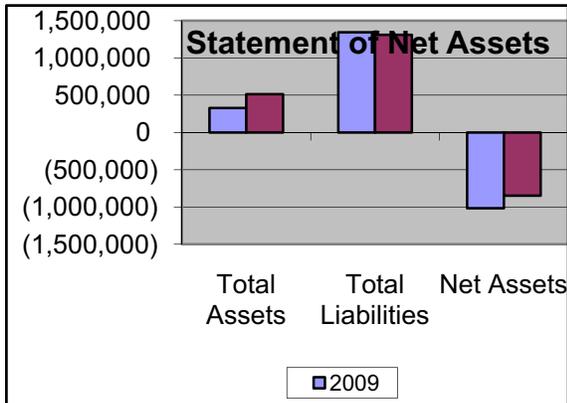
**Statement of Net Assets**

The Statement of Net Assets answers the question of how the School 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 School's net assets for fiscal years 2009 and 2008.

**Table 1  
Statement of Net Assets**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current Assets	\$ 47,251	\$ 131,987
Capital Assets, Net of Accumulated Depreciation	<u>279,958</u>	<u>381,958</u>
Total Assets	<u><u>327,209</u></u>	<u><u>513,945</u></u>
<b>Liabilities</b>		
Current Liabilities	<u>1,344,804</u>	<u>1,310,019</u>
Total Liabilities	1,344,804	1,310,019
<b>Net Assets</b>		
Investment in Capital Assets, Net of Related Debt	(785,388)	(62,508)
Unrestricted	<u>(232,208)</u>	<u>(785,388)</u>
Total Net Assets	<u><u>\$(1,017,596)</u></u>	<u><u>\$ (847,896)</u></u>



Net assets decreased to \$(1,017,596), a \$169,700, or 20% from 2008. Capital Assets, net of depreciation, decrease primary due to the annual depreciation charge-off of \$40,000. Liabilities increased from 2008, \$34,785, or 3%. The primary change in liabilities is a result of the significant outstanding debt obligation at June 30, 2009. See note 14 to note to the basic financial statements.

**CLEVELAND 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 School as a whole, the financial position of the School 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.

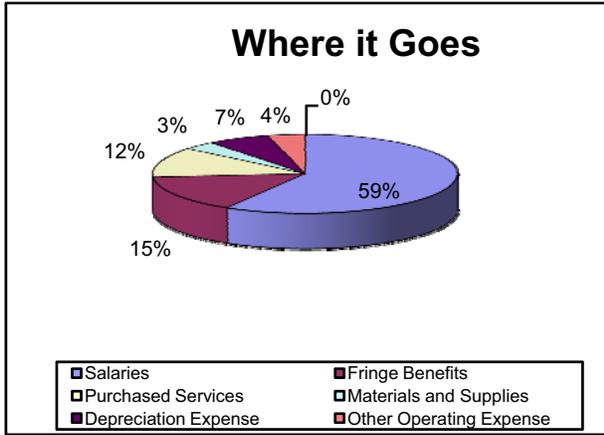
**Table 2  
Change in Net Assets**

	<u>2009</u>	<u>2008</u>
<b>Operating Revenue :</b>		
State Foundation	1,862,650	2,215,402
After School Care	681	-
Total Operating Revenues	1,863,331	2,215,402
<b>Operating Expenses :</b>		
Salaries	907,314	1,273,125
Fringe Benefits	391,380	395,996
Purchased Services	1,038,232	1,154,581
Materials and Supplies	48,737	43,448
Depreciation	40,000	40,000
Capital Outlays	127,929	-
Other	94,536	16,177
Total Operating Expenses	2,648,128	2,923,327
Operating (Loss)	(784,797)	(707,925)
<b>Non-Operating Revenues and (Expenses)</b>		
Federal and State Grants	547,021	446,528
Contributions	1,156	-
Other	4,414	18,738
Interest	-	(47,593)
Total Non-Operating Revenues	552,591	417,673
(Decrease) in Net Assets	\$ (232,206)	\$ (290,252)

Operating revenues decreased \$362,071, which represents a 15.9% decrease from 2008, due to the fluctuation in enrollment. Operating expenses decreased by \$275,199, which represents a 9.41% decrease from 2008.

**CLEVELAND 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 contract with its sponsor.

The contract between the School and its Sponsor does not prescribe a budgetary process. The School is required to develop an annual budget which is reviewed monthly. The Board of Trustees develops a one year spending plan and a five-year forecast that is reviewed semi-annual. The five-year

forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

**CAPITAL ASSETS**

The School has \$279,958 invested in capital assets, net of accumulated depreciation. Detailed information regarding capital asset activity is included in the note 4 in the notes to the basic financial statements.

**DEBT OBLIGATIONS**

The School has debt obligations at June 30, 2009 totaling \$1,166,249. These obligations are outlined in the notes to the basic financial statements. The incurred debt was to acquire equipment, furniture and books for the School, as well as, provide operating capital. The majority of the debt is owed to Lighthouse Academies, Inc., the management company. The management contract between the School and Lighthouse Academies, Inc. expired June 30, 2009.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School'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](mailto:ed@eddudleycpa.com).

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**Statement of Net Assets  
June 30, 2009**

**Assets**

*Current Assets:*

Cash and Cash Equivalents	\$ 302
Accounts Receivable	23,934
Prepaid Fuel	1,015
Rental Security Deposit	<u>22,000</u>

Total Current Assets 47,251

*Noncurrent Assets:*

Capital Assets:

    Depreciable Capital Assets, net 279,958

Total Noncurrent Assets 279,958

Total Assets \$ 327,209

**Liabilities**

*Current Liabilities:*

Accounts Payable	\$ 168,725
Debt Obligations:	
Due within one year	1,166,249
Other	<u>9,830</u>

Total Current Liabilities 1,344,804

Total Liabilities 1,344,804

**Net Assets**

Investment in Capital Assets, Net of Related Debt	\$ (785,388)
Unrestricted	<u>(232,207)</u>

Total Net Assets \$(1,017,595)

See accompanying notes to the basic financial statements

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

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

**Operating Revenues:**

State Foundation	\$1,862,650
After School Care	681
Total Operating Revenues	<u>1,863,331</u>

**Operating Expenses:**

Salaries	907,314
Fringe Benefits	391,380
Purchased Services	1,038,232
Materials and Supplies	48,737
Depreciation	40,000
Capital Outlays	127,929
Other	<u>94,536</u>

**Total Operating Expenses** 2,648,128

**Operating Loss** (784,797)

**Non-Operating Revenues (Expenses):**

Federal and State Grants	547,021
Contributions	1,156
Other	<u>4,414</u>

**Total Non-Operating Revenues (Expenses)** 552,591

**Change in Net Assets** (232,206)

**Net Assets Beginning of Year** (785,388)

**Net Assets End of Year** \$(1,017,595)

See accompanying notes to the basic financial statements

**CLEVELAND 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	\$1,862,650
Cash Received from Other Operating Sources	5,570
Cash Payments to Suppliers for Goods and Services	(1,038,232)
Cash Payments to Employees for Services	(907,314)
Cash Payments for Employee Benefits	(391,380)
Other Cash Payments	<u>(94,536)</u>
Net Cash Used for Operating Activities	(\$563,242)

**Cash Flows from Noncapital Financing Activities**

Cash Received from Federal and State Grants	547,021
Net Cash Provided by Noncapital Financing Activities	<u>547,021</u>

**Cash Flows from Capital and Related Financing Activities**

Cash Payments for Fiscal Charges	(4,794)
Cash Payment for Fiscal Charges	(13,853)
Cash Payment for Fiscal Charges	<u>(55,858)</u>
Net Cash Provided by (Used in) Capital Financing Activities	(74,505)

**Net Decrease in Cash and Cash Equivalents** (90,726)

**Cash and Cash Equivalents Beginning of Year** 91,028

**Cash and Cash Equivalents End of Year** \$ 302

See accompanying notes to the basic financial statements.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

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

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

Operating Gain (Loss)	(784,797)
-----------------------	-----------

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	40,000
--------------	--------

(Increase) Decrease

Current Liabilities	274,281
---------------------	---------

Current Debt Obligations	(13,853)
--------------------------	----------

Current Debt Obligations	(55,857)
--------------------------	----------

LHS Revolving Loan	(23,016)
--------------------	----------

Net Cash Provided by (Used in) Operating Activities	<u>(563,242)</u>
---	------------------

See accompanying notes to the basic financial statements

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**1. DESCRIPTION OF THE ENTITY**

Cleveland Lighthouse Community School, (the School) is a nonprofit corporation established on December 5, 2003 pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. The School qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code effective August 18, 2005. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School, 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 School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School was approved for operation under a contract with Ohio State Board of Education for a period of five years commencing on June 26, 1999.

In 2007, the School legally changed its name from Cleveland Lighthouse Charter Community School – East to Cleveland Lighthouse Community School.

On April 27, 2005 School was approved for operation under a contract between the governing authority of School 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 School 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.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial Statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (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 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 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.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA 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**

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 for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis. The Board also develops a five year forecast which is reviewed semi-annually.

**D. Cash and Cash Equivalents**

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash. The School has no investments at June 30, 2009.

**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.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Capital Assets**

Fixed 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. Fixed assets were \$278,958, as of June 30, 2009 with accumulated depreciation of \$120,000. Depreciation of fixed 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 School has an asset capitalization threshold policy of \$5,000. (See Note 4)

**G. Intergovernmental Revenues**

The School 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 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.

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

Under the above programs the School received \$2,409,671 this fiscal year.

**H. Compensated Absences**

Vacation is taken in a manner in which corresponds with the School calendar; therefore School 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. School 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.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA 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 \$168,725.

**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 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 expenditures requirements, in which the resources are provided to the School 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 assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. The School 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 School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. 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 School 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 School's deposits was \$302 and the bank balance was \$415.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**3. CASH AND CASH EQUIVALENTS (Continued)**

The School 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 School 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 School had no investments at June 30, 2009.

**4. CAPITAL ASSETS AND DEPRECIATION**

For the period ending June 30, 2009, the School's capital assets consisted of the following:

	<u>Balance 06/30/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/09</u>
<b>Capital Assets Being Depreciated:</b>				
Leasehold Improvements	\$ 399,958	\$ -	\$ -	\$ 399,958
<b>Total Capital Assets Being Depreciated</b>	<b>399,958</b>	<b>-</b>	<b>-</b>	<b>399,958</b>
<b>Less Accumulated Depreciation:</b>				
Leasehold Improvements	(80,000)	(40,000)	-	(120,000)
<b>Total Accumulated Depreciation</b>	<b>(80,000)</b>	<b>(40,000)</b>	<b>-</b>	<b>(120,000)</b>
<b>Net Total Capital Assets</b>	<b>\$ 319,958</b>	<b>\$ (40,000)</b>	<b>\$ -</b>	<b>\$ 279,958</b>

**5. EDUCATIONAL FACILITY LEASE**

The School leases its facility at Reserve Square, 1701 East 12<sup>th</sup> Street Cleveland 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 School paid \$180,574 in rental payments. This amount is recorded and reflected in the Statement of Revenue, Expenses and Change in Fund Net Assets, as purchase services.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**6. RISK MANAGEMENT**

**A. Property & Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2009, the School contracted with Markel Insurance Company for all of its insurance.

**B. Workers' Compensation**

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

**C. Employee Benefits**

The School 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.

**7. DEFINED BENEFIT PENSIONS PLANS**

**A. State Employees Retirement System of Ohio (SERS Ohio)**

**Plan Description** – The School contributes to the School 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](http://www.ohsers.org) under Employer/Audit Resources.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School 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 School contributions to SERS for the year ended June 30, 2009, 2008 and 2007 were \$46,827, \$75,949 and \$23,648, respectively, which equaled the required contributions each year.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA 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 (STRS Ohio)**

**Plan Description** – The School 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](http://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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Funding Policy** - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School 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 School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$48,013, \$52,909 and \$73,502 respectively, of which 100% has been contributed.

The above information is the latest available.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**7. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**C. Social Security System**

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

**8. POST-EMPLOYMENT BENEFITS**

**A. School Employee Retirement Systems**

In addition to a cost-sharing multiple-employer defined pension plan the School 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 School's contributions for the years ended June 30, 2009, 2008 and 2007 were \$3,864, \$3,238, and \$1,906.

**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.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**8. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**A. School Employee Retirement Systems (Continued)**

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 School'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](http://www.ohsers.org) under Employers/Audit Resources

**B. State Teachers Retirement System**

**Plan Description** – The School 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](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School'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.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**9. CONTINGENCIES**

**A. Grants**

The School 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 School, any such adjustments will not have a material adverse effect on the financial position of the School.

**B. Litigation**

There are currently no matters in litigation with the School 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 School. These reviews are conducted to ensure the School 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.

**10. SPONSORSHIP- Ashe' Culture Center, Inc.**

The School contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. Sponsorship fees are calculated at three percent of state funds received by School from the State of Ohio.

**11. MANAGEMENT COMPANY- Lighthouse Academies, Ltd**

The School 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 School revenues, excluding money received from the School lunch program. This fee is subordinate to the landlords' lease payments and payable after the School year.

The terms of the agreement were cancelled effective June 30, 2009. The School has not commissioned another management company.

**12. PURCHASED SERVICES**

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

	<u>2009</u>
Professional and Technical Services	241,415
Property Services	252,398
Utilities	34,100
Communications	9,728
Contractual Trade Services	<u>500,589</u>
	<u>\$1,038,232</u>

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**13. RELATED PARTIES**

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

**14. DEBT OBLIGATIONS**

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

	<b>Principal Outstanding</b>			<b>Principal      Due Outstanding    within</b>	
	<b>6/30/2008</b>	<b>Additions</b>	<b>Deductions</b>	<b>6/30/2009</b>	<b>One Year</b>
City First Bank	\$ 382,466	\$ -	\$ 13,853	\$ 368,613	\$368,613
LHA Revolving Loan	230,000	0	-	230,000	230,000
LHA Operating Loan	150,000	0	60,000	90,000	90,000
Loan Payable	281,686	168,791		450,477	450,477
Long-term Loans	<u>\$ 1,044,152</u>	<u>\$ 168,781</u>	<u>\$ 73,853</u>	<u>\$ 1,139,090</u>	<u>\$ 1,139,090</u>

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

The loan payable for \$150,000 is an operating loan in the form of a promissory note payable to LHA. This is payable when the School has available cash for repayment. No specific repayment date is specified. The School has paid \$60,000 in FY 2009. The School intends to retire the debt within two year.

The loan payable for \$382,466 is from City First Bank of DC to the School for leasehold improvements made to property leased by the School. The original amortization schedule requires the School to make principal and interest payments through 2009. At June 30, 2009, the School intends to refinance the outstanding balance. (See Note 15- Subsequent Events)

The loan payable for \$281,686 is a liability to the School's management firm (LHA) for unpaid management fees. Additional fees totaling \$168,781 owed LHA for the fiscal year ended June 30, 2009 is also reported in the Statement of Net Assets as part of the current debt obligation at June 30, 2009. There is no repayments schedule on this obligation.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUHAHOGA COUNTY**

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

**15. 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.

In November 2009, the School re-negotiated the debt instrument with City First of DC. Effective January 2010, the School is required to pay principal and interest payments of \$15,000 per month through June 30, 2012.

By resolution, in December 2009, the Board of Trustees authorized the new treasurer to amend the School's charter to reflect the name as Cleveland Community School.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education</i>					
School Breakfast Program	10.553	56,377	0	56,377	0
School Lunch Program	10.555	93,369	0	93,369	0
Total Nutrition Cluster		149,746	0	149,746	0
Total U.S. Department of Agriculture		149,746	0	149,746	0
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education</i>					
Title I	84.010	310,303	0	313,002	0
Special Education, Part B-IDEA	84.027	83,658	0	81,393	0
Safe and Drug Free Schools	84.186	309	0	309	0
Innovation Education	84.298	11	0	11	0
Education Technology	84.318	919	0	272	0
Improving Teacher Quality	84.367	9,809	0	11,245	0
School Improvement Grants	84.377	60,000	0	60,000	0
Total U.S. Department of Education		465,009	0	466,232	0
<b>Total Federal Assistance</b>		<b>614,755</b>	<b>0</b>	<b>615,978</b>	<b>0</b>

*The accompanying notes are an integral part of this schedule.*

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. The information of this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**NOTE B - CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C – FOOD DISTRIBUTION**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.



# 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

Cleveland Lighthouse Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Trustees:

We were engaged to audit the basic financial statements of Cleveland 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 18, 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 Statement of Net Assets and the Cash Flow Statement,
2. The following note disclosures were inaccurate:
  - a. Defined Benefit Pension Plan;
  - b. Post-Employment Benefits; and Lighthouse Academies Inc.
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 \$232,206 and accumulated a total net asset deficit of \$1,017,595 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 18, 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 18, 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 18, 2010



**Mary Taylor, CPA**  
Auditor of State

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE FEDERAL AWARDS  
RECEIPTS AND EXPENDITURE SCHEDULE**

Cleveland Lighthouse Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Trustees

**Compliance**

We have audited the compliance of Cleveland Lighthouse Community School (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the Cleveland Lighthouse Community School complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to administer a federal program such that there is more than a remote likelihood that the School's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, The community school sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

May 18, 2010

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2009**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Disclaimer
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2009  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

<b>Finding Number</b>	<b>2009-001</b>
-----------------------	-----------------

**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, the amount reported as” due within one year” on the Statement of Net Assets is inaccurate. Furthermore, 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.



# Mary Taylor, CPA

Auditor of State

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

Cleveland Lighthouse Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> 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 Cleveland 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 18, 2010



Mary Taylor, CPA  
Auditor of State

CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JUNE 29, 2010