

***LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Directors
Lighthouse Community School
1501 Madison Road
Cincinnati, Ohio 45206

We have reviewed the *Report of Independent Accountants* of the Lighthouse Community School, Hamilton County, prepared by Charles E. Harris & Associates, Inc. for the audit period July 1, 2004 through June 30, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 9, 2006

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**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY
For the Year Ending June 30, 2005**

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REPORT OF INDEPENDENT ACCOUNTANTS

Lighthouse Community School
1501 Madison Road
Cincinnati, Ohio 45206

We have audited the accompanying basic financial statements of the Lighthouse Community School (the School) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Lighthouse Community School as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 31, 2006 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, 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 the 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.

Charles E. Harris & Associates, Inc.
May 31, 2006

LIGHTHOUSE COMMUNITY SCHOOL

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 (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, 2005. 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 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 decreased \$125,338, which represents a 17 percent decrease from 2004. This decrease was due to a new rental agreement with New Life Properties (affiliated organization) in which rent was increased (\$3,750 per month versus \$2,800) and Lighthouse Community School assuming utility and maintenance costs.
- ❑ Total assets decreased \$137,157, which represents a 17 percent decrease from 2004. This was primarily due to the same reasons stated above as to why net assets decreased. Also, there was prepaid rent of \$11,250.
- ❑ Liabilities decreased \$11,819, which represents a 15 percent decrease from 2004. Accrued wages and benefits increased by \$3,075, while intergovernmental payables related to accrued pension benefits increased by \$1,122. Accounts payable and contracts payable increased by \$865. Since the amounts deducted from the foundation payments are allocated through December 31, the accrual for the pension benefit liability at June 30 is for the period through December 31, making it larger than with the direct payment method. Long-term liabilities decreased \$16,881.

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.

LIGHTHOUSE COMMUNITY SCHOOL

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

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" 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.

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)
Net Assets

	<u>2005</u>	<u>2004</u>
Current Assets	\$489,290	\$796,933
Capital Assets, Net	<u>174,321</u>	<u>3,835</u>
Total Assets	<u>663,611</u>	<u>800,768</u>
Liabilities		
Current Liabilities	47,080	42,018
Non-Current Liabilities	<u>17,658</u>	<u>34,539</u>
Total Liabilities	64,738	76,557
Net Assets		
Invested in Capital Assets	174,321	3,835
Unrestricted	<u>424,552</u>	<u>720,376</u>
Total Net Assets	<u>\$598,873</u>	<u>\$724,211</u>

Total assets decreased \$137,157. This decrease was due to a new rental agreement with New Life Properties (affiliated organization) in which rent was increased (\$3,750 per month versus \$2,800) and Lighthouse Community School assuming utility and maintenance costs. Equity in cash decreased by \$349,965 from 2004 due to Leasehold Improvements totaling \$176,158 and the School's assumption of the building's operating costs. Accounts Receivables increased by \$34,686. This increase was due to the timing of the receipt from Cincinnati Public Schools. Capital Assets, net of depreciation increased by \$170,486, due to Leasehold Improvements of \$176,158.

LIGHTHOUSE COMMUNITY SCHOOL

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

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Foundation Payments	\$310,797	\$310,252
State Special Education Program	242,970	286,941
FY01 Funding Level Adjustment	147,166	161,360
Other	95,657	42,601
Non-Operating Revenues:		
Federal and State Grants	113,277	111,325
Funding from School sponsor	120,000	110,858
Interest	442	3,251
Donations	300	240
Total Revenues	<u>1,030,609</u>	<u>1,026,828</u>
Operating Expenses		
Salaries	548,384	511,507
Fringe Benefits	124,325	135,985
Purchased Services	423,576	293,631
Materials and Supplies	15,401	16,664
Depreciation	13,140	5,051
Other Expenses	31,121	34,120
Total Expenses	<u>1,155,947</u>	<u>996,958</u>
Increase in Net Assets	<u><u>(\$125,338)</u></u>	<u><u>\$29,870</u></u>

Net assets decreased by \$125,338 in 2005. Salaries increased \$36,877 due to the addition of an assistant principal. As discussed earlier, Lighthouse Community School assumed operations of the building in October 2004. Rent increased \$950 per month for ten months and the School is now responsible for utility and occupancy costs. Occupancy costs were maintenance (\$68,037), janitorial services (\$12,940), and other (\$13,854). Contracted services increased also. The School contracted with ACE Charter School Services to do EMIS reporting, starting in January 2005 for \$5,928, the firm who does psychological testing increased \$6,100; Speech therapy increased \$3,773; and a Resource Officer was hired for \$3,801. Depreciation expense increased by \$8,089, because of six months depreciation on Leasehold Improvements.

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

Capital Assets

At the end of fiscal year 2005 the School had \$49,070 invested in furniture, fixtures, and equipment and \$176,158 in leasehold improvements, which represented an increase of \$183,625 from 2004. Table 3 shows fiscal year 2005 and fiscal year 2004:

(Table 3)
Fixed Assets at June 30, 2005
(Net of Depreciation)

	2005	2004
Furniture, Fixtures, and Equipment	49,070	41,603
Leasehold Improvements	176,158	0
Less: Accumulated Depreciation	(50,907)	(37,768)
Totals	\$174,321	\$3,835

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 2004-2005 school year, there were approximately 54 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2005 amounted to \$14,488 per student.

Fiscal year 2005 was a year of transition for the School. The Director since the School's inception left in November 2004. A new Director was hired in January 2005. This change caused staff turnover, and student unrest and resulted in a loss for the year. Assuming operations of the building increased expenses, because there were many maintenance problems with the building that had to be fixed.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's 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 Marilon Winther, Treasurer at Lighthouse Community School, 1501 Madison Road, Cincinnati, Ohio 45206 or e-mail at mwinther@lys.org.

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005**

Assets

Current Assets

Cash	\$ 400,830
Petty Cash	250
Accounts Receivable	62,400
Intergovernmental Receivable	14,560
Prepaid Expenses	11,250
Total Current Assets	<u>489,290</u>

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>174,321</u>
Total Assets	<u><u>\$ 663,611</u></u>

Liabilities

Current Liabilities

Accounts payable	\$ 4,766
Intergovernmental payable	1,635
Contract payable	8,963
Accrued Wages and Benefits	31,716
Total Current Liabilities	<u>47,080</u>

Non-Current Liabilities

Compensated absences payable	<u>17,658</u>
Total Liabilities	<u>64,738</u>

Net Assets

Investment in Capital Assets	174,321
Unrestricted	424,552
Total Net Assets	<u><u>\$ 598,873</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, 2005**

Operating Revenues

Foundation payments	\$ 310,797
State special education program	242,970
FY01 funding level adjustment	147,166
Other	95,657
Total Operating Revenues	<u>796,590</u>

Operating Expenses

Salaries	548,384
Fringe Benefits	124,325
Purchased Services:	
Contract Services	78,172
Rent & Utilities	63,980
Occupancy Costs	94,831
Equipment	8,606
Management Fees	133,000
Food Service	37,139
Other purchased services	7,848
Supplies and materials	15,401
Depreciation	13,140
Other	31,121
Total Operating Expenses	<u>1,155,947</u>

Operating (Loss) (359,357)

Non-operating Revenues

Federal Grants	108,574
State Grants	4,703
Cincinnati Public School	120,000
Donations	300
Interest Earnings	442
Total Non-Operating Revenues	<u>234,019</u>

Change in Net Assets (125,338)

Net Assets Beginning of year	724,211
Net Assets End of year	<u>\$ 598,873</u>

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, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Others	\$ 93,257
Cash Received from Foundation Payments	313,884
Cash Received from Disadvantaged Pupil Impact Aid	390,136
Cash Payments to Suppliers for Goods and Services	(469,231)
Cash Payments to Employees for Service	(545,351)
Cash Payments for Employee Benefits	<u>(140,042)</u>
Net Cash Used for Operating Activities	<u>(357,347)</u>

Cash Flows from Noncapital Financing Activities

Other Non-Operating Revenues	300
Federal and State Subsidies Received	113,802
Prepaid rent	(11,250)
Other Non-operating revenue	<u>87,714</u>
Net Cash Provided by Noncapital Financing Activities	<u>190,566</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(183,626)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(183,626)</u>

Cash Flows from Investing Activities

Interest	<u>442</u>
Net Increase in Cash and Cash Equivalents	(349,965)
Cash beginning of year	<u>751,045</u>
Cash end of year	<u><u>\$ 401,080</u></u>

Reconciliation of Operating Income to Net Cash Used for Operating Activities

Operating Loss	\$(359,357)
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Adjustment to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	13,140
Changes in Assets and Liabilities	
Increase in Accounts Receivable	689
Increase in Accounts Payable	1,129
Increase in Intergovernmental Payable	1,122
Increase in Accrued Wages Payable	3,075
Decrease in Compensated Absences	(16,881)
Decrease in Contract Payable	<u>(264)</u>
Total Adjustments	<u>2,010</u>
Net Cash Used for Operating Activities	<u><u>\$(357,347)</u></u>

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, 2005

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 City 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. 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 a nine-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 provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 8 non-certified and 6 certificated full time teaching personnel who provide services to 54 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 to time mutually agreed upon.

Lighthouse Community School paid Lighthouse Youth Services, Inc. \$133,000 as specified in the contract during the fiscal year for these services, all of which has been paid. Lighthouse Youth Services, Inc. paid \$42,500 to Lighthouse Community School for the use of five part-time Instructional Assistants.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

In October 2004, New Life Properties, Inc., an affiliated organization, bought the school building on Desmond Avenue. A five-year lease agreement was signed between the two parties, in which the School pays monthly rent and assumes utility and maintenance costs of the building. The School board authorized up to \$250,000 in leasehold improvements to the building, of which \$176,158 was spent. Due to the extensive remodeling, New Life Properties paid the School \$52,200 for maintenance costs.

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) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, 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 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.

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,

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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. Fixed Assets

Fixed 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 values 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

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 assets and liabilities. Investments in capital assets,

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net assets represent the difference between 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 borrowings used for the acquisition, construction, or improvement 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. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The School received no capital contributions during fiscal year 2005.

J. 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 \$400,830, and the bank balance was \$408,493. Of the bank balance, \$100,000 was covered by federal depository insurance. \$308,493 was uncollateralized.

Investments: The School had no investments at June 30, 2005, or during the fiscal year.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts and intergovernmental 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:

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Amounts
Title I	\$1,450
Title II-A	5,223
Title II-D	739
Title IV	849
Title VI-B IDEA-B	5,159
Title VI-R	357
USDA Meals	783
Total All Intergovernmental Receivables	\$14,560

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
Business-Type Activity				
Capital Assets Being Depreciated				
Leasehold Improvements	\$0	\$176,158	\$0	\$176,158
Furniture, Fixtures, and Equipment	41,603	7,468	0	49,071
Total Capital Assets				
Being Depreciated	41,603	183,626	0	225,229
Less Accumulated Depreciation:				
Leasehold Improvements	0	(8,808)	0	(8,808)
Furniture, Fixtures, and Equipment	(37,768)	(4,332)	0	(42,100)
Vehicles	0	0	0	0
Total Accumulated Depreciation	(37,768)	(13,140)	0	(50,908)
Total Capital Assets				
Being Depreciated, Net	3,835	170,486	0	174,321
Business-Type Activity				
Capital Assets, Net	\$3,835	\$170,486	\$0	\$174,321

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School contracted with Philadelphia Insurance Company for general liability and property insurance and Philadelphia Insurance Company for educational errors and omissions insurance.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 two years.

B. Workers' Compensation

The School pays the State Workers' 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.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$40,017, \$34,980, and \$18,115, respectively; 100 percent has been contributed for fiscal years 2004 and 2003 and 96 percent for fiscal year 2005. \$1,635 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, 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. 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 contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003 were \$35,359, \$36,960, and \$30,489, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$2,526 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$12,595.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 Trustees. Teachers, administrators, and classified staff earn up to thirty days of vacation per year, depending upon the position, scheduled hours, and length of service. 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 30th, an employee receives one personal day; if hired after November 1st, 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 3.1 hours per pay 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.

NOTE 11 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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 is 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, any such disallowed claims will not have a

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

material adverse effect on the overall financial position of the School at June 30, 2005.

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 fiscal year 2005 and \$110,857 during fiscal year 2004, 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. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. There was no review performed for the fiscal year ended June 30, 2005.

D. Litigation

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

E. State of Ohio Special Funding for Community Schools with High Levels of SBH Students

Legislation was enacted (Section 38 of the Am. Sub. H.B. 405) that stipulated that the change in weighted funding for disabled students identified as severe behavior handicapped from FY01 to FY04 should 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 \$147,166 during fiscal year 2005 and \$161,360 during fiscal year 2004 under this special funding and is designated as "FY01 Funding Level Adjustment."

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Lighthouse Community School
Cincinnati, Ohio

We have audited the financial statements of the Lighthouse Community School, Inc. (the "School") as of and for the year ended June 30, 2005 and have issued a report thereon dated May 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the School in a separate letter dated May 31, 2006.

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, grant agreements, and other matters, 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*.

This report is intended solely for the information and use of the audit committee, management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.

May 31, 2006

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ended June 30, 2004, reported no material citations or recommendations.



**Auditor of State
Betty Montgomery**

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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
OCTOBER 19, 2006**