



**LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST  
CUYAHOGA COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of Lighthouse Charter Community School-East, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lighthouse Charter Community School - East, Cuyahoga County, Ohio, as of June 30, 2006 and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2007, 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 Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

March 22, 2007

## **LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

The discussion and analysis of Lighthouse Charter Community School - East's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

### **Financial Highlights**

Key financial highlights for 2006 include the following:

- The school began operations in the fall of 2005 with a total enrollment of 37 students and five teachers. During the summer of 2006 the school relocated to new space and expanded to over 200 students.
- The school secured an operating loan of \$230,000 from its operator to provide for cash needs during the early years of the school. This loan, along with year end payable balances, was used to finance the year end net asset deficit. Payment on the loan will not begin until fiscal year 2008.
- Operating expenses were \$684,222. The largest expenses are due to staffing (\$209,019) and services purchased by the school (\$387,940) such as building rent, utilities and student support services.
- Non-operating revenues were \$153,000. This is from Federal Start-Up Grants (\$150,000) and a state grant for student data management (EMIS - \$3,000).

### **Using this Financial Report**

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

**LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

**Statement of Net Assets**

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2006. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statement of Net Assets for fiscal years ended June 30, 2006.

	<u>2006</u>
<b>Assets</b>	
Cash	\$ 5,139
Other Current Assets	5,424
Security Deposits	<u>22,000</u>
Total Assets	<u>32,563</u>
<b>Liabilities</b>	
Current Liabilities	75,355
Long Term Liabilities	<u>230,000</u>
Total Liabilities	<u>305,355</u>
<b>Net Assets</b>	
Net Assets	<u>(272,792)</u>
Total Liabilities and Net Assets	<u>\$ 32,563</u>

Since the school did not open and operate during 2005, a comparative analysis between 2006 and 2005 has not been made for this statement.



## LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

### Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2006.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2006 and 2005.

	<u>2006</u>
<b>Revenues</b>	
Foundation and Assistance Revenues	\$ <u>258,430</u>
Operating Revenues	<u>258,430</u>
Federal and State Grants	<u>153,000</u>
Non-Operating Revenues	<u>153,000</u>
Total Revenues	<u>411,430</u>
<b>Expenses</b>	
Salaries	177,251
Fringe Benefits	31,768
Purchased Services	387,940
Materials and Supplies	63,483
Capital Outlay	16,088
Other Operating Expenses	<u>7,692</u>
Total Expenses	<u>684,222</u>
<b>Net Income/(Loss)</b>	(272,792)
Net Assets at Beginning of Year	<u>0</u>
<b>Net Assets at End of Year</b>	<u>\$ (272,792)</u>

Since the school did not open and operate during 2005, a comparative analysis between 2006 and 2005 has not been made for this statement.

### Current Financial Issues

Lighthouse Charter Community School - East opened in the fall of 2005. In its initial year of operation it had 37 students, five teaching staff members and expenses of \$684,222. For fiscal year 2007 the school is budgeted for a total of 240 students, eleven teaching staff members and expenses of \$2,121,017. The increase in enrollment for the 2006-2007 school year will significantly improve the financial position of the school at June 30, 2006. As the school matures to full enrollment its staff will strive to maintain the high level of services currently offered, will provide a strong educational product to the students and families and will develop a reputation for quality education.

## **LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

### **Contacting the School's Financial Management**

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's accountability for the monies it receives. If you have any questions about this report or need additional information please contact either Robert Stearns at Lighthouse Academies, Inc., 1661 Worcester Road, Suite 207, Framingham, MA 01701; phone # 508-626-0901; e-mail address [bstearns@lighthouse-academies.org](mailto:bstearns@lighthouse-academies.org) or Thomas F. Babb, CPA, Treasurer at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; phone # 216-635-1881; e-mail address [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com).

**Cleveland Lighthouse Charter Community School - East**  
**Cuyahoga County**  
**Statement of Net Assets**  
**As of June 30, 2006**

**Assets:**

**Current Assets:**

Cash	\$5,139
Due from Other Governments	2,280
Accounts Receivable	<u>3,144</u>
<i>Total Current Assets</i>	10,563

**Non-Current Assets:**

Security Deposit	<u>22,000</u>
<i>Total Assets</i>	<u>32,563</u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	\$49,147
Due Other Governments	\$3,090
Accrued Expenses	<u>23,118</u>
<i>Total Current Liabilities</i>	<u>75,355</u>

**Long Term Liabilities:**

Loans Payable	<u>230,000</u>
<i>Total Liabilities</i>	<u>305,355</u>

**Net Assets:**

Unrestricted	<u>(272,792)</u>
<i>Total Net Assets</i>	<u><u>(\$272,792)</u></u>

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

**Cleveland Lighthouse Charter Community School - East**  
**Cuyahoga County**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2006**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	<u>\$258,430</u>
<i>Total Operating Revenues</i>	<u>258,430</u>

**Operating Expenses:**

Salaries	177,251
Fringe Benefits	31,768
Purchased Services	387,940
Materials and Supplies	63,483
Capital Outlay	16,088
Other Operating Expenses	<u>7,692</u>
<i>Total Operating Expenses</i>	<u>684,222</u>
Operating Loss	<u>(425,792)</u>

**Non-Operating Revenues:**

Federal and State Grants	<u>153,000</u>
<i>Total Non-Operating Revenues</i>	<u>153,000</u>
Net Loss	<u>(272,792)</u>
Net Assets at Beginning of the Year	<u>0</u>
Net Assets at End of Year	<u><u>(\$272,792)</u></u>

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

**Cleveland Lighthouse Charter Community School - East  
Cuyahoga County  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2006**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$261,520
Cash Payments to Suppliers for Goods and Services	(437,850)
Cash Payments to Employees for Services	<u>(177,251)</u>
Net Cash Used for Operating Activities	<u>(353,581)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants Received	<u>150,720</u>
Net Cash Provided by Noncapital Financing Activities	<u>150,720</u>

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

Security Deposit	(22,000)
Proceeds from Loans Payable	<u>230,000</u>
Net Cash Provided by Capital and Related Financing Activities	<u>208,000</u>

Net Increase in Cash	5,139
Cash at Beginning of Year	<u>0</u>
Cash at End of Year	<u><u>\$5,139</u></u>

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

**Cleveland Lighthouse Charter Community School - East**  
**Cuyahoga County**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2006**  
**(Continued)**

**Reconciliation of Operating Loss to Net Cash Used for Operating Activities:**

Operating Loss	(\$425,792)
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**Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:**

Changes in Assets and Liabilities:

(Increase) in Accounts Receivable	(3,144)
Increase in Accounts Payable	49,147
Increase in Due Other Governments	3,090
Increase in Accrued Expenses	23,118

Total Adjustments	72,211
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Net Cash Used for Operating Activities	(\$353,581)
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The accompanying notes to the financial statements are an integral part of this statement.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**I. Description of the School and Reporting Entity**

**Cleveland Lighthouse Charter Community School - East (CLCSE)** is a nonprofit corporation established on August 12, 2005 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On August 12, 2005, CLCSE applied for tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code which is currently under review. Management is not aware of any course of action or series of events that have occurred that might adversely affect CLCSE' tax-exempt status. CLCSE, which is part of Ohio's education program, is independent of any school district. CLCSE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CLCSE.

On January 20, 2004 CLCSE was approved for operation under a contract between the Governing Authority of CLCSE and Lucas County Educational Service Center (LCESC) as their sponsor. Under the terms of the contract LCESC 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 terminate the contract prior to expiration. See Note XI for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on December 12, 2004 under the name Lighthouse Academies, Inc. (LHA).

CLCSE operates under a three to five member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. CLCSE controls one instructional facility staffed by five certificated full time teaching personnel who provide services to 37 students.

CLCSE entered into an agreement with LHA to provide management services for the fiscal year. See footnote XI for additional information regarding the management company. The board members of CLCSE are also board members Cleveland Lighthouse Charter Community School – West.

**II. Summary of Significant Accounting Policies**

The financial statements of CLCSE have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. CLCSE also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of CLCSE' accounting policies are described below.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**II. Summary of Significant Accounting Policies (Continued)**

**1. Basis of Presentation**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**2. Measurement Focus and Basis of Accounting**

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. CLCSE prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which CLCSE receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which CLCSE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to CLCSE on a reimbursement basis. Expenses are recognized at the time they are incurred.

For fiscal year 2006, CLCSE has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries," GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section," and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.



**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**II. Summary of Significant Accounting Policies (Continued)**

**2. Measurement Focus and Basis of Accounting (Continued)**

GASB Statement No. 44 is to improve the understandability and usefulness of the information that State and local governments present as supplementary information in the statistical section.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statements Nos. 42 and 47 did not materially affect the presentation of the financial statements for the school and GASB Statement No. 44 does not apply to the school.

**3. Cash**

All monies received by CLCSE are deposited in demand deposit accounts.

**4. Budgetary Process**

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

**5. Due from Other Governments and Accounts Receivable**

Moneys due CLCSE for the year ended June 30, 2006 are recorded as Due from Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

**6. Intergovernmental Revenues**

CLCSE currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs 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 all eligibility requirements have been met.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**II. Summary of Significant Accounting Policies (Continued)**

**7. Intergovernmental Revenues (Continued)**

CLCSE also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, CLCSE was awarded \$150,000 in fiscal year 2006 to offset start-up costs of the School. During fiscal year 2006, \$147,720 from the 2006 award was received with the balance of \$2,280 recorded as Due from Other Governments. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2006 school year totaled \$411,430.

**8. Compensated Absences**

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

Sick leave benefits are earned at the rate of three days per year and can be accrued up to a maximum amount of nine days. CLCSE will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

**9. Use of Estimates**

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

**10. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for CLCSE consists of material and fees received in the current year which pertain to the next school year.

**III. Deposits**

At fiscal year end June 30, 2006, the carrying amount of CLCSE' deposits totaled \$5,139 and its bank balance was \$8,540. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**IV. Purchased Services**

Purchased Services include the following:

Instruction	\$28,606
Pupil Support Services	8,983
Staff Development & Support	19,312
Administrative	144,315
Occupancy Costs	86,519
Transportation	61,623
Food Services	<u>38,582</u>
Total	<u>\$387,940</u>

**V. Operating Leases**

CLCSE leased its facilities at a temporary site located at 1841 Prospect Avenue, Cleveland from Tree of Hope under a ten and one-half month lease agreement effective August 15, 2005 and expiring June 30, 2006. Monthly payments under the terms of the lease are \$8,000. The lease also provides that CLCSE will pay \$8,000 for a security deposit at the time the lease was signed. During fiscal year 2006 rents totaled \$82,400.

**VI. Risk Management**

**1. Property and Liability Insurance**

CLCSE is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, CLCSE contracted with Markel Insurance Company for all of its' insurance.

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

**2. Workers' Compensation**

CLCSE reimburses LHA for premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2006 there have been no claims filed by CLCSE employees with the Ohio Worker's Compensation System.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**VI. Risk Management (Continued)**

**3. Employee Medical, Dental, and Vision Benefits**

CLCSE provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to CLCSE for insurance benefits was \$6,462.

**VII. Defined Benefit Pension Plans**

**1. School Employees Retirement System**

CLCSE contributes to the School Employees Retirement System of Ohio (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 state statute per 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 St., Suite 100, Columbus, Ohio 43215-3746 by calling (800)878-5853 or by visiting the SERS website at [ohsers.org](http://ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and CLCSE is required to contribute an actuarially determined rate. The current rate for CLCSE is 14 percent of annual covered payroll. A portion of CLCSE' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion 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. CLCSE' required contribution for pension obligations to SERS for the fiscal year ended June 30, 2006 was \$4,062. For fiscal year 2006, all required contributions have been made.

**2. State Teachers Retirement System**

CLCSE 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 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**VII. Defined Benefit Pension Plans**

**2. State Teachers Retirement System (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member 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 Combined Plan offers features of both the DC 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 the 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 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, 2006, plan members were required to contribute 10 percent of their annual covered salary. CLCSE was required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. For fiscal year 2005, 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.

CLCSE' required contribution for pension obligations to STRS Ohio for the fiscal year ended June 30, 2006 was \$17,759. For fiscal year 2006, all required contributions have been made.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**VIII. Post-Employment Benefits**

CLCSE 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 partial 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.

All STRS Ohio 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 Ohio. 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, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For CLCSE, this amount equaled \$1,366 during fiscal 2006.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for the 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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For CLCSE, the amount contributed to fund health care benefits, including surcharge, during the 2006 fiscal year equaled \$2,340.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
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**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**VIII. Post-Employment Benefits (Continued)**

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**IX. 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 plan 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...".

CLCSE is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**X. Contingencies**

**1. Grants**

CLCSE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of CLCSE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of CLCSE at June 30, 2006.

**2. Litigation**

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on CLCSE is not presently determinable.

**CLEVELAND LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**  
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**X. Contingencies (Continued)**

**3. Enrollment FTE**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report adjustments to the state funding received during fiscal year 2006 are reflected in the financial statements.

**XI. Sponsorship and Management Agreement**

CLCSE entered into an agreement with Ashe Culture Center, Inc. to provide sponsorship and oversight services as required by law. Sponsorship fees are calculated as 3% of state funds received by CLCSE from the State of Ohio. The total fees, for fiscal year 2006, were \$8,353 all of which has been paid.

CLCSE entered into an agreement with Lighthouse Academies (LHA) to provide educational and operational management, legal, financial, and business management services for the fiscal year 2006. The agreement is good for a five year period with renewal if the charter renews. Management fees are calculated as 7.5% of the 2005/2006 Foundation payment received by CLCSE, as reported in the Monthly Community School Foundation Report.

**XII. Related Parties**

The members of the CLCSE Board of Trustees are also members of Cleveland Lighthouse Charter Community School – West. CLCSE and W contracts with LHA for educational, operational, legal, financial and other business management services.





# 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

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

To the Board of Trustees:

We have audited the basic financial statements of the Lighthouse Charter Community School - East, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the 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 of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated March 22, 2007, we reported an other matter involving internal control over financial reporting we did not deem reportable conditions.

### 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*. In a separate letter to the School's management dated March 22, 2007, we reported another matter related to noncompliance we deemed immaterial.

Lighthouse Charter Community School - East  
Cuyahoga County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

March 22, 2007



**Mary Taylor, CPA**  
Auditor of State

**LIGHTHOUSE CHARTER COMMUNITY SCHOOL - EAST**

**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 12, 2007**