



**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
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# 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 Directors:

We have audited the accompanying basic financial statements of the Cleveland Lighthouse Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2007, 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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cleveland Lighthouse Community School, Cuyahoga County, Ohio, as of June 30, 2007, 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 School suffered an operating loss in the amount of \$1,297,531, a net loss of \$222,344, and a net asset deficit of \$495,136. Management's plan in regard to these matters is described in Note XIII.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2008, 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.

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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. 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

September 19, 2008

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL**  
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**Management’s Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2007**  
**Unaudited**

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The discussion and analysis of Cleveland Lighthouse Community School’s (*formerly known as Cleveland Lighthouse Charter Community School – East*), (the School) financial performance provides an overall review of the School’s financial activities for the fiscal year ended June 30, 2007. 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 to enhance their understanding of the School’s financial performance.

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

**Financial Highlights**

Key financial highlights for 2007 include the following:

- The school has a deficit net assets totaling (\$495,136) after its first two year of operations. The school’s pilot year in FY 2006 had 37 students. The small size, in part, contributed to the first year loss of (\$272,792). The first year loss was financed in part through a low interest, unsecured start up loan from Lighthouse Academies, Inc. in the amount of \$230,000. The school’s second year of operations, which ended June 30, 2007, there was a net loss in the amount of \$222,344. This was funded, in part, by a low interest operating loan from Lighthouse Academies, Inc in the amount of \$120,000 and unpaid management fees in the amount of \$93,148. Starting in fiscal year 2008, the financial position of the school should improve with the school benefiting from recently amended Ohio HB No.119, section 3314.091(B) which will provide the school with much needed funding for the cost of transportation of its students. The transportation cost for 2007 was \$259,236 and was one of the largest single expense items for which there was no direct funding. The majority of the students are from the Cleveland Municipal School District, a district that has not provided bus services to all community schools. The amended Ohio Revised Code section 3314.091(B) provides that the department of education will reimburse the community school for eligible students. The exact amount of reimbursement has not been published.
- In fiscal year 2007, the school moved to its permanent facility in downtown Cleveland located at 1701 East 12<sup>th</sup> Street. The facility will accommodate 260 students. The facility was renovated by the building’s property owner. The total cost of improvements was \$961,868 and CLCS’s share of the cost was \$399,958. The school received a loan from City

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First Bank of D.C. in the amount of \$400,000. The loan was guaranteed through a credit enhancement instrument issued by Charter School Development Corporation. The note is due June 1, 2009, is payable at a fifteen year amortization with interest at the bank's CD rate plus 2 points.

- The school acquired some of its property through a sub-lease agreement with Lighthouse Academies, Inc. In that agreement the school received new property with a cost of \$200,299 and paid rental payments of \$46,881. The term of the lease is payable over 13 quarters at a lease factor of .0884 with the right to purchase at fair market value, not to exceed 10% of cost. The property received included computers and network equipment with a cost of \$115,416; furniture with a cost of \$15,386; and textbooks with a cost of \$69,498.
- Operating expense were \$2,410,918, with the largest expenses being purchased services of \$2,055,002; transportation \$259,236; food program \$126,980; furniture and textbooks acquired through startup grants of \$112,051 and \$98,599, respectively.
- Non-operating revenues of \$492,755 were mostly federal awards including; the Public Charter School Program (PCSP) \$300,000; USDA National School Lunch and Breakfast Programs \$114,461; and Title I \$68,489. The PCSP grant of \$300,000 was used to finance start up costs including furniture and textbooks.

### **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.

### **Statement of Net Assets**

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2007. 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.



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**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2007**  
**Unaudited**

The following schedule provides a summary of the School's Statements of Net Assets for fiscal years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash	\$46,566	\$5,139
Other Current Assets	85,421	5,424
Security Deposits	22,000	22,000
Improvements, net	<u>359,958</u>	<u>0</u>
Total Assets	<u>513,945</u>	<u>32,563</u>
<b>Liabilities</b>		
Current Liabilities	170,698	75,355
Startup loan – LHA	230,000	230,000
Operating Loan – LHA	120,000	0
Deferred Mgmt Fees	93,149	0
Bank Loan – Facility Improve.	<u>395,234</u>	<u>0</u>
Total Liabilities	1,009,081	305,355
 Total Net Assets	 <u>(495,136)</u>	 <u>(272,792)</u>

**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, 2007.

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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Foundation and Assistance Revenues	<u>\$1,113,387</u>	<u>\$258,430</u>
Total Operating Revenues	<u>1,113,387</u>	<u>258,430</u>
 Federal and State Grants	 492,755	 153,000
Other Operating Revenues	<u>582,432</u>	<u>0</u>
Total Non-operating Revenues	<u>1,075,187</u>	<u>153,000</u>

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Total Revenues	<u>2,188,574</u>	<u>411,430</u>
<b>Expenses</b>		
Salaries	-	177,251
Fringe Benefits	-	31,768
Purchased Services	2,055,002	387,940
Materials and Supplies	271,074	63,483
Interest Expense	27,892	0
Depreciation	40,000	0
Other Operating Expenses	<u>16,950</u>	<u>23,780</u>
Total Liabilities	<u>2,410,918</u>	<u>684,222</u>
Net Loss	(222,344)	(272,792)
Net Assets (Deficit) at Beginning of the Year	<u>(272,792)</u>	<u>0</u>
Net Assets (Deficit) at End of the Year	<u>(\$495,136)</u>	<u>(\$272,972)</u>
<b>Sources of deficit financing</b>		
Startup loan with Lighthouse Academies, Inc (LHA)	230,000	230,000
Unpaid Interest	10,351	0
Operating Loan LHA	120,000	0
Deferred LHA Fees	<u>93,148</u>	<u>0</u>
Amounts financed by LHA	453,499	230,000
Other working capital deficit	<u>41,637</u>	<u>42,972</u>
Amount provided for	<u>\$495,136</u>	<u>\$272,972</u>

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**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2007**  
**Unaudited**

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**Current Financial Issues**

Cleveland Lighthouse Community School 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 increased its size to 152 students and experienced a deficit of (\$222,344), largely to student data recording and higher than anticipated costs for transportation and facilities. Starting with fiscal year 2008, with higher enrollment, fewer expected student transfers, increased funding and recent changes to transportation laws for community schools, the school expects to maximize its revenue and have a balanced budget. 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.

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**Statement Of Net Assets**  
**For The Fiscal Year Ended June 30, 2007**

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**Assets:**

**Current Assets:**

Cash	\$46,566
Due from Other Governments	50,311
Accounts Receivable	15,240
Prepaid Expenses	<u>19,870</u>
<i>Total Current Assets</i>	<u>131,987</u>

**Non-Current Assets:**

Security Deposit	22,000
Capital Assets, net of depreciation	<u>359,958</u>
<i>Total Non-Current Assets</i>	<u>381,958</u>

*Total Assets* 513,945

**Liabilities:**

**Current Liabilities:**

Accounts Payable	29,110
Accrued Expenses	141,588
Loans Payable	<u>149,435</u>
<i>Total Current Liabilities</i>	<u>320,133</u>

**Long Term Liabilities:**

Loans Payable	<u>688,948</u>
<i>Total Long Term Liabilities</i>	<u>688,948</u>

*Total Liabilities* 1,009,081

**Net Assets:**

Invested in Capital Assets, Net of Related Debt	<u>(40,000)</u>
Unrestricted	<u>(455,136)</u>
<i>Total Net Assets</i>	<u>\$(495,136)</u>

See Accompanying Notes to the Basic Financial Statements

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**Statement Of Revenues, Expenses And**  
**Changes In Net Assets**  
**For The Fiscal Year Ended June 30, 2007**

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**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$1,113,387
<i>Total Operating Revenues</i>	<u>1,113,387</u>

**Operating Expenses:**

Purchased Services	2,055,002
Materials and Supplies	271,074
Interest Expense	27,892
Depreciation	40,000
Other Operating Expenses	<u>16,950</u>
<i>Total Operating Expenses</i>	<u>2,410,918</u>

Operating Loss	<u>(1,297,531)</u>
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**Non-Operating Revenues:**

Federal and State Grants	492,755
Other Operating Revenues	<u>582,432</u>
<i>Total Non-Operating Revenues</i>	<u>1,075,187</u>

Net Loss	(222,344)
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Net Assets at Beginning of Year	<u>(272,792)</u>
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Net Assets at End of Year	<u>(\$495,136)</u>
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See Accompanying Notes to the Basic Financial Statements

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL**  
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**Statement Of Cash Flows**  
**For The Fiscal Year Ended June 30, 2007**

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from State of Ohio	\$ 1,093,297
Cash received from other operating revenue	(17,472)
Cash paid to employees and vendors for goods and services	(2,193,831)
Net cash used for operating activities	<u>(1,118,006)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Purchase of leasehold improvements	(54,000)
Repayment of bank loan	(4,766)
Federal grants received	455,824
Other Operating Revenues Received for shared operational costs	582,432
State grants received	5,900
Loan proceeds from bank	54,042
Loan from Lighthouse Academies Inc.	120,000
Net cash provided by noncapital financing activities	<u>1,159,432</u>

NET INCREASE IN CASH 41,426

CASH - Beginning of year 5,140

CASH - End of year \$ 46,566

See Accompanying Notes to the Basic Financial Statements

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**Statement Of Cash Flows**  
**For The Fiscal Year Ended June 30, 2007**

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RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED FOR OPERATING ACTIVITIES:

Operating Loss:	\$ (1,297,531)
Depreciation	40,000
Change in Assets and Liabilities---	
Increase in Accounts Receivable	(12,096)
Increase in Prepaid Expenses	(19,870)
Increase in Note Payable for Deferred Fees	93,148
Increase in Due from Other Governments	(17,000)
Decrease in Accounts Payable	(20,037)
Increase in Accrued Expenses	118,470
Decrease in Due to Government	<u>(3,090)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (1,118,006)</u>

SUPPLEMENTAL INFORMATION

Noncash transactions	
Leasehold improvements paid directly by bank at new loan closing	\$ 345,958



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**Notes To The Financial Statements**  
**For The Year Ended June 30, 2007**

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

**Cleveland Lighthouse Community School (CLCS)** is a nonprofit corporation established on December 5, 2003 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 January 4, 2007, CLCS received its determination letter from the Internal Revenue Service that it is tax exempt 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 CLCS's tax-exempt status. CLCS, which is part of Ohio's education program, is independent of any school district. CLCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CLCS.

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

On April 27, 2005, CLCS was approved for operation under a contract between the Governing Authority of CLCS and ASHE Culture Center, Inc. (ASHE) as their sponsor. Under the terms of the contract ASHE 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 August 12, 2005 under the name Cleveland Lighthouse Charter Community School – East.

CLCS operates under 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 population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. CLCS controls one instructional facility staffed by seven certificated full time teaching personnel who provide services to one hundred fifty students.

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

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**Notes To The Financial Statements**  
**For The Year Ended June 30, 2007**

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**II. Summary of Significant Accounting Policies**

The financial statements of CLCS 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. CLCS also applies Financial 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 CLCS' accounting policies are described below.

**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. CLCS 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 CLCS 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.

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

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

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 CLCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to CLCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

**3. Cash**

All monies received by CLCS are deposited in demand deposit accounts. Total cash for CLCS is presented as “Cash” on the accompanying Statement of Net Assets. Cash as of June 30, 2007 represents bank deposits which are covered by federal depository insurance.

**4. Budgetary Process**

Pursuant to Ohio Revised Code Chapter 5705.391 CLCS 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. CLCS will from time to time adopt budget revisions as necessary.

**5. Due from Other Governments**

Due from Other Governments as of June 30, 2007, consisted of intergovernmental receivables arising from grants, entitlement and shared revenues totaling \$50,311. These receivables are considered collectable in full. Of this amount, \$17,000 is for estimated Foundation Revenue. The School also has the following Federal Grants which are Due from Other Governments:

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**Notes To The Financial Statements**  
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**II. Summary of Significant Accounting Policies (Continued)**

**5. Due from Other Governments**

<u>Due from Other Governments</u>	<u>Amount</u>
School Foundation	\$ 17,000
School lunch	23,832
Title I	<u>9,479</u>
Total Federal Grants Due from Other Governments	\$ <u>50,311</u>

**6. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**7. Security Deposit**

Security deposits are amounts paid pursuant to a lease agreement and to be refunded in future periods in accordance with the terms of the lease.

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

**8. Capital Assets and Depreciation**

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$5,000 or more 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 capitalized. Estimated useful lives are as follows:

<b>Capital Asset Classification</b>	<b>Years</b>
Computers and Office Equipment	3
Leasehold Improvements	10
Furniture, Equipment & Materials	10

**9. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets 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.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws or 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.

**10. Intergovernmental Revenues**

CLCS currently participates in the State Foundation Program and the Poverty Based Assistance (PBA) program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements

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

**10. Intergovernmental Revenues (Continued)**

have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

CLCS also participates in the Public Charter Schools Program, Title I, Title II(a), Title II(d), Title IV, Title V, the School Breakfast Program, and the National School Lunch Program. These are federal awards passed through the Ohio Department of Education. Revenues received from these programs are recognized as non-operating revenue on the accompanying financial statements. A summary of Intergovernmental Revenues is as follows:

<u>Intergovernmental Revenues</u>	<u>Amount</u>
State Foundation and Poverty Based Assistance	\$1,113,387
State EMIS Grant	5,900
PCSP Program	300,000
Title I	68,489
Title II(a)	2,911
Title II(d)	836
Title IV	115
Title V	43
USDA Breakfast	40,169
USDA Lunch	<u>74,292</u>
Total Intergovernmental Revenues	\$1,606,142

**11. Other Operating Revenues**

Other operating revenues consist of revenues from Villaview Lighthouse Charter School (VLCS) reimbursed to CLCS as part of their operating agreement. VLCS is an Ohio community school with a common board as CLCS. The two schools share the same facility and have a written agreement to share operational costs. Operational costs include the following Facility costs: rent, utilities, taxes, insurance, custodial compensation, repairs and maintenance. Operational costs also includes staff compensation and benefits for any staff member providing services at both schools, food, lease of furniture, textbooks and technology, and transportation.

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

**12. Compensated Absences**

Vacation is taken in a manner which corresponds with the school calendar; therefore, CLCS 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 a maximum amount of one hundred twenty days. CLCS 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.

**13. 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.

**III. Deposits**

At fiscal year end June 30, 2007, the carrying amount of the School's deposits was \$46,566 and the bank balance was \$189,046. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, \$100,000 of the School's bank balance was covered by the Federal Deposit Insurance Corporation and not exposed to custodial credit risk.

Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specified collateral held at the Federal Reserve Bank in the name of the School.

The School has no deposit policy for custodial risk beyond the requirements of State Statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL**  
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**Cuyahoga County**

**Notes To The Financial Statements**  
**For The Year Ended June 30, 2007**

**III. Deposits (Continued)**

institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being pledged.

**IV. Capital Assets**

A summary of capital assets at June 30, 2007 follows:

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07
Capital Assets Being Depreciated:				
Leasehold Improvements	\$0	\$399,958	\$0	\$399,958
Total Capital Assets Being Depreciated:	<u>\$0</u>	<u>\$399,958</u>	<u>\$0</u>	<u>\$399,958</u>
Less Accumulated Depreciation:				
Leasehold Improvements	0	(40,000)	0	(40,000)
Total Accumulated Depreciation:	<u>0</u>	<u>(40,000)</u>	<u>0</u>	<u>(40,000)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$0</u>	<u>\$359,958</u>	<u>\$0</u>	<u>\$359,958</u>

**V. Purchased Services**

The employees of CLCS are actually employed by the School's management firm (Lighthouse Academies, Inc) and their salaries and fringe benefits are included with Purchased Services. Purchased Services include the following:

Instruction	\$1,133,802
Administrative	266,496
Staff development	38,420
Pupil Support Services	22,014
Occupancy Costs	208,054
Transportation	259,236
Food Services	<u>126,980</u>
Total	<u>\$2,055,002</u>



**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL**  
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**VI. Operating Leases**

CLCS leases its facilities at Reserve Square, 1701 East 12<sup>th</sup> St, Cleveland from Reserve Apartments, Ltd. under a ten year lease agreement effective July 1, 2006 and expiring June 30, 2016. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2007, the monthly rent was \$16,388. The lease also provides that CLCS will pay \$22,000 for a security deposit at the time the lease was signed. During fiscal year 2007 rents totaled \$134,250.

**VII. Risk Management**

**1. Property and Liability Insurance**

CLCS 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 2007, CLCS 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**

CLCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2007 there have been no claims filed by CLCS employees with the Ohio Worker's Compensation System.

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

CLCS 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 CLCS for insurance benefits was \$104,321.

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**Notes To The Financial Statements**  
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**VIII. Defined Benefit Pension Plans**

**1. 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 43215-3476.

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 2007, 10.68 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, 2007, and 2006 were \$23,648 and \$4,062 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006.

**2. State Teachers Retirement System**

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 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site 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 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

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**Notes To The Financial Statements**  
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**VIII. Defined Benefit Pension Plans**

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

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, 2007, 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 2006, 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 contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 and 2006 were \$76,502, and \$17,759 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006.

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL**  
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**For The Year Ended June 30, 2007**

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**IX. Post-Employment Benefits**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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 funded 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 cost 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$5,464 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$7,351.

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**Cuyahoga County**

**Notes To The Financial Statements**  
**For The Year Ended June 30, 2007**

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**IX. 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 for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**X. Contingencies**

**1. Grants**

CLCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of CLCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of CLCS at June 30, 2007.

**2. 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 there were no adjustments to the state funding received during fiscal year 2007.

**XI. Sponsorship and Management Agreement**

CLCS entered into an agreement with ASHA Culture Center, Inc. to provide sponsorship and oversight services as required by law. Sponsorship fees are calculated as 3% of state funds received by CLCS, from the State of Ohio. For the year ended June 30, 2007 the total sponsorship fees totaled \$32,315 and all amounts have been paid.

# CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL

— A Community School —

Cuyahoga County

## Notes To The Financial Statements For The Year Ended June 30, 2007

### XI. Sponsorship and Management Agreement (Continued)

CLCS entered into an agreement with Lighthouse Academies, Inc., (LHA) a nonprofit organization, (LHA) to provide educational and operational management, legal, financial, and business management services for the fiscal year 2007. The agreement is for a five year period with renewal if the charter renews. Management fees are calculated as 7.5% of the school's revenues, excluding money for the food program. This fee is subordinated to the landlord's lease payments and payable after the school year. For the year ended June 30, 2007 management fees totaled \$113,185 with no amounts having been paid at year end, \$20,037 paid in the subsequent year and \$93,148 as a long term loan.

### XII. Related Parties

The members of the CLCS Board of Trustees are also members of Villaview Lighthouse Community School, formerly known as Cleveland Lighthouse Charter Community School – West. CLCS contracts with LHA for educational, operational, legal, financial and business management services.

### XIII. Management Plan

For fiscal year 2007, the School had an operating loss of \$1,297,531, a net loss of \$222,344, and a net asset deficit of \$495,136. The School will have another loss in fiscal year 2008, but the losses are expected to begin decreasing. The School has new leadership which plans to encourage community involvement in order to increase student enrollment. The School also plans to provide some of their own transportation services in order to lower transportation costs. Once enrollment increases and transportation costs decrease, it should allow the School to reduce its operating losses and begin reducing the cumulative net deficit.

### XIV. Debt Obligations

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07	Amount Due within Year
Loan Payable	\$ 230,000	\$ -	\$ -	\$ 230,000	\$ 76,667
Loan Payable		120,000	-	120,000	60,000
Loan Payable		400,000	(4,766)	395,234	12,768
Loan Payable		93,149	-	93,149	-
Total	\$ 230,000	\$ 613,149	\$ ( 4,766)	\$ 838,383	\$ 149,435

**CLEVELAND LIGHTHOUSE COMMUNITY SCHOOL**  
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**Notes To The Financial Statements**  
**For The Year Ended June 30, 2007**

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**XIV. Debt Obligations (Continued)**

The Loan Payable for \$230,000 is a revolving loan in the form of a promissory note payable to Lighthouse Academies, Inc. (LHA), which is the School's management firm, and is payable in 36 months beginning on July 1, 2007.

The Loan Payable for \$120,000 is an Operating Loan in the form of a promissory noted payable to LHA. This is also payable in 36 months after the school begins payment. No specific repayment date is required. The School has made no payments in FY 07 but intends to pay it off in three years.

The Loan Payable for \$400,000 is from City First Bank of DC to CLCS for leasehold improvements made to property leased by the School. The amortization schedule requires the School to make principle and interest payments through FY 2008. On June 1, 2009 a balance of \$372,075 is due which the School intends to refinance.

The Loan Payable for \$93,149 is a liability to the School's management firm (LHA) for unpaid management fees.

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# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the basic financial statements of Cleveland Lighthouse Community School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 19, 2008, wherein we noted the School suffered an operating loss in the amount of \$1,297,531, a net loss in the amount of \$222,344, and a net asset deficit of \$495,136. 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 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.

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

We noted certain matters that we reported to the School's management in a separate letter dated September 19, 2008.

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

### **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 intend this report solely for the information and use of management, the Board of Directors and the Community School sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

September 19, 2008



**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  
OCTOBER 16, 2008**