

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

***AUDIT REPORT***

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

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





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Lighthouse Community School, Hamilton County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 24, 2008

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**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY  
AUDIT REPORT  
For the Year Ending June 30, 2007**

**TABLE OF CONTENTS**

<u><b>Title</b></u>	<u><b>Page</b></u>
<b>Report of Independent Accountants</b>	<b>1</b>
<b>Management’s Discussion and Analysis</b>	<b>2-5</b>
<b>Statement of Net Assets</b>	<b>6</b>
<b>Statement of Revenues, Expenses and Changes in Net Assets</b>	<b>7</b>
<b>Statement of Cash Flows</b>	<b>8</b>
<b>Notes to the Basic Financial Statements</b>	<b>9-20</b>
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i></b>	<b>21-22</b>
<b>Status of Prior Audit’s Citations and Recommendations</b>	<b>23</b>

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***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

Lighthouse Community School  
Hamilton County  
1501 Madison Road  
Cincinnati, Ohio 45206

To the Board of Directors:

We have audited the accompanying basic financial statements of the Lighthouse Community School (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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lighthouse Community School as of June 30, 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 management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

***Charles E. Harris & Associates, Inc.***  
December 10, 2007

## **LIGHTHOUSE COMMUNITY SCHOOL**

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

The discussion and analysis of the Lighthouse Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 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 basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **Financial Highlights**

- In total, net assets increased \$70,056, which represents a 10 percent increase from 2006. This increase is due in part to an increase in Foundation payments from the State Department of Education.
- Total assets increased \$102,288, which represents a 13 percent increase from 2006. The School made \$87,759 in leasehold improvements. Also, cash on hand at June 30, 2007 decreased \$291,036 due to excess funds being invested.
- Current liabilities increased \$39,202, which represents a 114 percent increase from 2006. This was due primarily to an overpayment of \$21,308 in foundation payments which will be recouped by the Department of Education over a seven month period in fiscal year 2008 and an increase in intergovernmental payables. Since the amounts deducted from the foundation payments for STRS and SERS are allocated through December 31, the accrual for the pension benefit liability at June 30 is for the period through December 31, making it larger than with the direct payment method. Also, SERS has a surcharge for employees who make under \$35,800. The school has accrued \$6,000 for this liability.

### **Using this Financial Report**

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

# LIGHTHOUSE COMMUNITY SCHOOL

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

## Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2007?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2007 and fiscal year 2006:

(Table 1)  
**Net Assets**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current Assets	\$585,018	\$530,923
Capital Assets, Net	<u>278,433</u>	<u>231,240</u>
Total Assets	<u>863,451</u>	<u>762,163</u>
<b>Liabilities</b>		
Current Liabilities	73,661	34,459
Non-Current Liabilities	<u>15,815</u>	<u>23,785</u>
Total Liabilities	89,476	58,244
<b>Net Assets</b>		
Invested in Capital Assets	278,433	231,240
Unrestricted	<u>495,542</u>	<u>472,679</u>
Total Net Assets	<u><u>\$773,975</u></u>	<u><u>\$703,919</u></u>

- Total assets increased \$101,288. The School made \$87,759 in leasehold improvements. Also, cash on hand at June 30, 2007 decreased \$291,036 as excess cash was invested.

Table 2 shows the changes in net assets for fiscal year 2007 and fiscal year 2006, as well as a listing of revenues and expenses.

**LIGHTHOUSE COMMUNITY SCHOOL**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007(Table 2)  
**Change in Net Assets**

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Foundation Payments	\$348,101	\$367,758
State Special Education Program	347,811	274,759
FY01 Funding Level Adjustment	164,434	140,217
Other	42,018	46,543
Non-Operating Revenues:		
Federal and State Grants	113,776	122,641
Funding from School sponsor	120,000	120,000
Interest	39,485	8,682
Other	133,300	128,329
Total Revenues	<u>1,308,925</u>	<u>1,208,929</u>
Operating Expenses		
Salaries	503,492	434,660
Fringe Benefits	140,891	124,252
Purchased Services	459,763	463,793
Materials and Supplies	11,733	10,672
Depreciation	40,566	28,301
Other Expenses	82,424	42,205
Total Expenses	<u>1,238,869</u>	<u>1,103,883</u>
Increase in Net Assets	<u>\$70,056</u>	<u>\$105,046</u>

Net assets increased by \$70,056. Salaries increased \$68,832 due to two additional positions – a teacher and a behavioral specialist. Depreciation increased \$12,265 due to the leasehold improvements. Other Expenses increased due to an increase of \$42,550 in bus transportation.

**Fixed Assets**

At the end of fiscal year 2007 the School had \$79,602 invested in furniture, fixtures, and equipment and \$302,180 in leasehold improvements, which represented an increase of \$71,333 from 2006. Table 3 shows fiscal year 2007 and fiscal year 2006:

**LIGHTHOUSE COMMUNITY SCHOOL**

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

(Table 3)  
**Fixed Assets at June 30, 2007**  
**(Net of Depreciation)**

	<u>2007</u>	<u>2006</u>
Furniture, Fixtures, and Equipment	\$79,602	\$96,028
Leasehold Improvements	302,180	214,421
Less: Accumulated Depreciation	(103,349)	(79,209)
Totals	<u>\$278,433</u>	<u>\$231,240</u>

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

**Current Financial Issues**

The Lighthouse Community School was formed in 2000. During the 2006-2007 school year, there were approximately 60 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2007 amounted to \$11,598 per student.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Marilon Winther, Treasurer at Lighthouse Community School, 1501 Madison Road, Cincinnati, Ohio 45206 or e-mail at [mwinther@lys.org](mailto:mwinther@lys.org).

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2007**

**Assets**

**Current Assets**

Cash	\$ 185,114
Petty Cash	250
Investments	332,548
Accounts Receivable	35,593
Intergovernmental Receivable	16,248
Prepaid Expenses	15,265
Total Current Assets	<u>585,018</u>

**Non-Current Assets**

Fixed Assets (Net of Accumulated Depreciation)	<u>278,433</u>
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Total Assets	<u>\$ 863,451</u>
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**Liabilities**

**Current Liabilities**

Accounts payable	\$ 12,897
Intergovernmental payable	14,289
Contract payable	17,168
Unearned revenue	21,308
Accrued Wages and Benefits	7,999
Total Current Liabilities	<u>73,661</u>

**Non-Current Liabilities**

Compensated absences payable	<u>15,815</u>
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Total Liabilities	<u>89,476</u>
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**Net Assets**

Investment in Capital Assets	278,433
Unrestricted	495,542
Total Net Assets	<u>\$ 773,975</u>

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

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007**

<b><u>Operating Revenues</u></b>	
Foundation payments	\$ 348,101
State special education program	347,811
FY01 funding level adjustment	164,434
Other	42,018
Total Operating Revenues	<u>902,364</u>
<b><u>Operating Expenses</u></b>	
Salaries	503,492
Fringe Benefits	140,891
Purchased Services	
Contract Services	89,901
Rent & Utilities	78,486
Occupancy Costs	59,193
Equipment	2,253
Management Fees	126,000
Food Service	30,712
Other purchased services	73,218
Supplies and materials	11,733
Depreciation	40,566
Other	82,424
Total Operating Expenses	<u>1,238,869</u>
Operating Profit/(Loss)	(336,505)
<b><u>Non-operating Revenues</u></b>	
Federal Grants	104,092
State Grants	9,684
Cincinnati Public School	120,000
Other grants	19,000
Donations	114,300
Interest Earnings	39,485
Total Non-Operating Revenues	<u>406,561</u>
Change in Net Assets	70,056
Net Assets Beginning of year	<u>703,919</u>
Net Assets End of year	<u><u>\$ 773,975</u></u>

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

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from Others	\$ 42,018
Cash Received from Foundation Payments	369,409
Cash Received from Disadvantaged Pupil Impact Aid	512,245
Cash Payments to Suppliers for Goods and Services	(549,961)
Cash Payments to Employees for Service	(503,737)
Cash Payments for Employee Benefits	(138,471)
Net Cash Used for Operating Activities	<u>(268,497)</u>

**Cash Flows from Noncapital Financing Activities**

Donations	114,300
Federal and State Subsidies Received	110,576
Other Non-operating revenue	133,407
Net Cash Provided by Noncapital Financing Activities	<u>358,283</u>

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

Payments for Capital Acquisitions	<u>(87,759)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(87,759)</u>

**Cash Flows from Investing Activities**

Purchase of investments	(332,548)
Interest	39,485
Net Cash Used for Investing Activities	<u>(293,063)</u>

Net Increase in Cash and Cash Equivalents (291,036)

Cash beginning of year 476,400

Cash end of year \$ 185,364

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

Operating Loss \$(336,505)

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

Depreciation	40,566
Changes in Assets and Liabilities	
Increase in Prepaid Expense	(3,790)
Decrease in Accounts Payable	(292)
Increase in Intergovernmental Payable	10,390
Decrease in Accrued Wages Payable	(245)
Decrease in Compensated Absences	(7,970)
Increase in Unearned Revenue	21,308
Increase in Contract Payable	8,041
Total Adjustments	<u>68,008</u>

Net Cash Used for Operating Activities \$(268,497)

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

Lighthouse Community School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades six through twelve. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Lighthouse Community School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

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

The School operates under the direction of a thirteen-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 8 non-certified and 4 certificated full time teaching personnel who provide services to 60 students.

**NOTE 2 – RELATED ORGANIZATION**

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

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Lighthouse Community School paid Lighthouse Youth Services, Inc. \$126,000 as specified in the contract during the fiscal year for these services, all of which has been paid. Lighthouse Youth Services, Inc. paid \$42,000 to Lighthouse Community School for the use of six part-time Instructional Assistants.

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

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

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

**A. Basis of Presentation**

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**B. Measurement Focus**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

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

**E. Fixed Assets**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**F. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means.

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The School records a liability for accumulated unused vacation time when earned for all employees. The School does not pay sick leave benefits upon termination or retirement.

Effective June 2007, teachers receive 8 weeks of time off during the summer break and will accrue 2 weeks of vacation (by pay period) to be used during the school year.

**G. Net Assets**

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

**H. Operating Revenues and Expenses**

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

**I. Contributions of Capital**

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The School received donations of \$95,454 from its affiliated organization and \$18,846 from other outside sources during fiscal year 2007.

**J. Estimates**

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

**NOTE 4 – DEPOSITS AND INVESTMENTS**

At fiscal year end, the carrying amount of the School's deposits was \$185,114, and the bank balance was \$208,426. Of the bank balance, \$100,000 was covered by federal depository insurance. \$108,426 was uncollateralized.

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The School's investments are protected by the Securities Investor Protector Corporation (SIPC) against losses caused by the financial failure of the broker-dealer. SIPC was created by the Securities Investor Protections Act of 1970 and is neither a government or a regulatory authority, but a nonprofit, membership corporation, funded by its member securities broker-dealers. Customers of a failed firm receive all securities registered in their names or in the process of being so registered. Customers receive, on a pro rata basis, all remaining customer cash and securities held by the firm.

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

The School considers cash and investments under 30 days to be liquid. The School had the following investments at December 31:

	<u>Carrying Value</u>
Cash alternatives	\$ 4,924
Equities	154,842
Fixed Income	118,832
Alternative strategies	<u>53,950</u>
	<u>\$332,548</u>

**NOTE 5 – RECEIVABLES**

Receivables at June 30, 2007, consisted of accounts and governmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Title II-A	\$ 797
Part B IDEA	13,843
USDA Meals	<u>1,608</u>
Total All Intergovernmental Receivables	<u>\$16,248</u>

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007:

<b>Business-Type Activity</b>	Balance 06/30/06	Additions	Deletions	Balance 06/30/07
Capital Assets Being Depreciated				
Leasehold Improvements	\$214,421	87,759		\$ 302,180
Furniture, Fixtures, and Equipment	96,028	-	(16,426)	79,602
Total Capital Assets				
Being Depreciated	<u>\$310,449</u>	<u>\$87,759</u>	<u>(\$16,426)</u>	<u>\$381,782</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(26,551)	(29,681)		(56,232)
Furniture, Fixtures, and Equipment	(52,658)	(10,885)	16,426	(47,117)
Total Accumulated Depreciation	<u>(79,209)</u>	<u>(40,566)</u>	<u>16,426</u>	<u>(103,349)</u>
Total Capital Assets				
Being Depreciated, Net	<u>\$231,240</u>	<u>\$47,193</u>	<u>\$0</u>	<u>\$278,433</u>
Business-Type Activity				
Capital Assets, Net	<u>\$231,240</u>	<u>\$47,193</u>	<u>\$0</u>	<u>\$278,433</u>

**NOTE 7 – RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School contracted with Philadelphia Insurance Company for general liability and property insurance and Philadelphia Insurance Company for educational errors and omissions insurance.

Coverages are as follows:

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

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**B. Worker's Compensation**

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

**NOTE 8 – DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement Pension**

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

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006 (the latest information available), 10.57 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 SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$46,700, \$43,219, and \$40,017, respectively; 100 percent has been contributed for fiscal years 2006 and 2005 and 90 percent for fiscal year 2007. The balance outstanding is reflected as an intergovernmental payable.

**B. State Teachers Retirement System of Ohio**

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

New members have a choice of three retirement plans, A Defined Benefit (DB) Plan, A Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less that 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 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. Contributions 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, 2006, and 2005 were \$26,923, \$21,610, and \$35,359, respectively. 66 percent was contributed for fiscal year 2007, 100 percent has been contributed for fiscal years 2006, and 2005. The balance outstanding is reflected as an intergovernmental payable.

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 – POSTEMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participate in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006 (the latest information available), the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. At June 30, 2006, the balance in the fund was \$3.3 billion. Net health care costs paid by STRS were \$254,780,000 and STRS had 115,595 eligible benefit participants

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006 (the latest information available), employer contributions to fund health care benefits were 3.42 percent of covered payroll. 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. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2006 (the latest information available) were \$158,751,207. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs.

**LIGHTHOUSE COMMUNITY SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to received benefits at June 30, 2006 (the latest information available) was 59,492.

**NOTE 10 – EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Trustees. Administrators and classified staff earn up to thirty days of vacation per year, depending upon the position, scheduled hours, and length of service. Teachers, effective June 2007, now receive eight weeks of paid leave during the summer break and earned two weeks of vacation each year, to be used during the school work year. Accumulated unused vacation time is paid to all employees upon termination of employment, but sick leave is not paid.

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

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

**B. Insurance Benefits**

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

**NOTE 11 – STATE SCHOOL FUNDING DECISION**

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

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

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 12 – CONTINGENCIES**

**A. Grants**

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

**B. Other Grants**

The School's contract with its sponsor, Cincinnati Public Schools, provides for supplemental payments as defined in the contract with the sponsor. The School received \$120,000 during the fiscal year 2007 and 2006, based on this contract.

**C. State Funding**

The Ohio Department of Education (ODE) reviews enrollment data and full time equivalency (FTE) calculations made by the schools. Schools are selected randomly. These reviews ensure the schools are reporting accurate student enrollment to the State, upon which state foundation funding is calculated. ODE did not review the 2007 enrollment data.

**D. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitution issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that the Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred on November 29, 2005. On October 25, 2006, the Ohio Supreme Court ruled that the Community Schools are constitutional.

**LIGHTHOUSE COMMUNITY SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Legislation was enacted (Section 38, of the Am. Sub. H.B. 405) that stipulated that the change in weighted funding for the disabled students identified as severe behavior handicapped from FY01 and subsequent years not result in a a loss of funds to community schools with over 50 percent of its student population identified as severe behavior handicapped. Lighthouse Community School received \$164,434 during fiscal year 2007 and \$140,217 during fiscal year 2006 under this special funding and is designated at “FY01 Funding Level Adjustment.”

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***Charles E. Harris & Associates, Inc.***  
***Certified Public Accountants***

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

Lighthouse Community School  
Hamilton County  
1501 Madison Road  
Cincinnati, Ohio 45206

To the Board of Directors:

We have audited the financial statements of the Lighthouse Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

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

***Charles E. Harris and Associates, Inc.***

December 10, 2007

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ended June 30, 2006, reported no material citations or recommendations.



**Mary Taylor, CPA**  
Auditor of State

**LIGHTHOUSE COMMUNITY SCHOOL**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 5, 2008**