



**LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION  
d.b.a. LIGHTHOUSE COMMUNITY SCHOOL AND  
PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION  
d.b.a. LIGHTHOUSE COMMUNITY SCHOOL AND  
PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

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## REPORT OF INDEPENDENT ACCOUNTANTS

Lighthouse Educational Development Corporation  
d.b.a. Lighthouse Community School and Professional Development Academy  
388 South Main Street  
Akron, Ohio 44311-1059

To the Board of Trustees:

We have audited the Balance Sheet of the Lighthouse Educational Development Corporation, d.b.a. Lighthouse Community School and Professional Development Academy, Summit County, Ohio, (the School) as of and for the year ended June 30, 2001, and the related Statements of Revenues, Expenses and Changes in Retained Earnings, and of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2001, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**Jim Petro**  
Auditor of State

February 22, 2002

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**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2001**

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 8,983
Receivables:	
Accounts	372
Intergovernmental	33,017
Prepaid expenses	3,178
Security deposits	400
Total current assets	<u>45,950</u>

**Noncurrent assets:**

Fixed assets, net of accumulated depreciation	<u>8,518</u>
<b>Total assets</b>	<b><u><u>\$ 54,468</u></u></b>

**LIABILITIES AND FUND EQUITY**

**Current liabilities:**

Accounts payable	\$ 1,774
Accrued pension and payroll taxes	20,975
Intergovernmental payable	15,056
Capital lease payable, current portion	2,400
Total current liabilities	<u>40,205</u>

**Long-term liabilities:**

Capital lease payable, net of current portion	<u>5,109</u>
<b>Total liabilities</b>	<b>45,314</b>

**Fund equity**

Retained earnings	<u>9,154</u>
<b>Total liabilities and fund equity</b>	<b><u><u>\$ 54,468</u></u></b>

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

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2001**

**Operating revenues**

State foundation	\$	443,092
Materials and fees		4,167
Sales		632
Other operating revenues		1,282
Total operating revenues		449,173

**Operating expenses**

Salaries		294,727
Fringe benefits		93,662
Purchased services		105,102
Materials and supplies		67,821
Depreciation		989
Other		3,485
Total operating expenses		565,786

**Operating loss**

**(116,613)**

**Non-operating revenues (expenses)**

State and federal grants		113,562
Private foundation grants		12,175
Interest earnings		1,599
Interest expense		(902)
Net non-operating revenues		126,434

**Net income**

**9,821**

Accumulated deficit at beginning of year

(667)

Retained earnings at end of year

**\$ 9,154**

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



**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2001**

**Increase (decrease) in cash and cash equivalents**

**Cash flows from operating activities:**

Cash from the State of Ohio	\$ 443,092
Cash payments to suppliers for goods and services	(177,588)
Cash payments to employees for services and benefits	(378,273)
Cash payment for other operating expenses	(3,885)
Other operating revenues	6,081
Net cash used for operating activities	(110,573)

**Cash flows from noncapital financing activities:**

State and federal grants	80,545
Private foundation grants	12,175
Net cash provided by noncapital financing activities	92,720

**Cash flows from capital and related financing activities:**

Cash payment on capital lease	(1,800)
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**Cash flows from investing activities:**

Interest on investments	1,599
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Net decrease in cash and cash equivalents (18,054)

Cash and cash equivalents at beginning of year 27,037

Cash and cash equivalents at end of year \$ 8,983

**Reconciliation of operating loss to net cash used for operating activities:**

Operating loss \$ (116,613)

**Adjustments to reconcile operating loss to net cash used for operating activities:**

Depreciation	989
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(372)
Prepaid expenses	(3,578)
Increase (decrease) in liabilities:	
Accounts payable	(1,487)
Federal and state grants payable	15,056
Accrued pension and payroll taxes	(4,568)
Total adjustments	6,040

Net cash used for operating activities \$ (110,573)

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

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**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

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

Lighthouse Educational Development Corporation d.b.a. Lighthouse Community School and Professional Development Academy (the School) is a new start-up school as provided for by Ohio Revised Code Sections 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. 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 Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2000 through June 30, 2001; however, certain startup revenues and costs were received or incurred prior to July 1, 2000 (See Note 12). The School operates under a self-appointing eleven-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then-existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by 2 non-certified and 5 certified full-time teaching personnel who provide services to 63 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (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, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**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.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**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 school's contract with its Sponsor. The contract between the School and its Sponsor, the Ohio State Board of Education, does not prescribe a budgetary process for the School.

**Cash and Cash Equivalents**

Cash received by the School is maintained in demand deposit and money market accounts.

For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

**Fixed Assets and Depreciation**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$1,000. The School does not possess any infrastructure and does not capitalize interest costs.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture, fixtures, and equipment is computed using the straight-line method over estimated useful lives of 5 to 10 years.

LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Intergovernmental Revenues**

The School currently participates in several State and Federal programs.

Entitlements

State Foundation Program

Non-Reimbursable Grants

Management Information Systems  
SchoolNet Professional Development  
Mentor/Entry Year Planning  
Title I  
Title II  
Title VI  
Title IV  
Title VI-R  
Charter School Startup

Reimbursable Grants

National School Lunch Program

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenue for this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

The School also participated in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 to be received in equal installments over three years in order to offset start-up costs of the School. The School will receive its final payment in fiscal year 2002. This program is recognized as non-operating revenue on the accompanying financial statements.

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

**Accrued Liabilities**

Obligations, such as interest due but unpaid, are reported as liabilities in the accompanying financial statements.

LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 - DEPOSITS**

At year-end, the carrying amount of the School's deposits were \$8,983 and the bank balance was \$23,894. All of the bank balance was covered by federal depository insurance.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Receivables at June 30, 2001 consisted of accounts and State and Federal grants. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables is as follows:

<u>Intergovernmental Receivables</u>	
Title I	\$ 24,852
Title IV	448
Title VI	3,476
Title VI-R	3,241
Lunch reimbursement	1,000
	<u>\$ 33,017</u>

**NOTE 5 - FIXED ASSETS AND DEPRECIATION**

A summary of the School's fixed assets at June 30, 2001, follows:

Furniture, Fixtures and Equipment	\$ 9,507
Less: Accumulated Depreciation	<u>(989)</u>
Net Fixed Assets	<u>\$ 8,518</u>

Equipment includes assets under a capital lease which have an original cost of \$8,407.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**NOTE 6 - CAPITAL LEASES**

During the fiscal year 2001, the School entered into a capitalized lease for a copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date of the lease. The following is a schedule of the future minimum lease payments as of June 30, 2001.

<u>Year Ending June 30</u>	<u>Amount</u>
2002	\$ 2,400
2003	2,400
2004	2,400
2005	2,400
2006	<u>600</u>
Total future minimum lease payments	10,200
Less: Amount representing interest	<u>(2,691)</u>
Present value of future minimum lease payments	<u><u>\$ 7,509</u></u>

**NOTE 7 - PURCHASED SERVICES**

For the year ended June 30, 2001, purchased service expenses were payments for services rendered by various vendors as follows:

Occupancy costs	\$ 53,896
Professional services	43,237
Other	<u>7,969</u>
Total	<u><u>\$ 105,102</u></u>

**NOTE 8 - RISK MANAGEMENT**

**Property and Liability** - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School contracted with a company for property and general liability insurance. Property coverage carries a \$2,500 deductible and has a \$1,000,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$1,000,000 in the aggregate with a \$2,500 deductible.

**Workers Compensation** - The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the total monthly gross payroll by a factor determined by the Bureau of Worker's Compensation.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

**Employee Medical, Dental, and Vision Benefits** - The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 100% of the monthly premium for its employees. For the fiscal year 2001, the School's premiums varied depending on family size and the ages of those covered.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the School is required to contribute 14%; for fiscal year 2001 4.2% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by Ohio statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2001 was \$5,519; of this amount 80% has been contributed for year ended June 30, 2001. The unpaid contribution is recorded as a liability.

**B. State Teachers Retirement System**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the School is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School's required contribution for pension obligations to STRS for fiscal year ended June 30, 2001 was \$35,869; of this amount 71% was contributed for year ended June 30, 2001. The unpaid contribution is recorded as a liability.



**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**NOTE 11 - POST EMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to 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 contribution rates are established by the Systems based on authority granted by State statute. Both Systems are on pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$11,529 during the 2001 fiscal year.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For fiscal year 2001 employer contributions to fund health care benefits was 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School, the amount to fund health care benefits, including surcharge of \$927, equaled \$4,790 during fiscal year 2001.

**NOTE 12 - START-UP PERIOD**

The School was incorporated on July 6, 1999. During the period from its incorporation to July 1, 2000, the School received proceeds from various sources and incurred various start-up expenses. These revenues and expenses follow:

Federal Charter School Grant	\$ 50,000
Interest	<u>721</u>
Total revenues	<u>50,721</u>
Start-up expenses, including textbooks, supplies, payroll and professional services	<u>51,388</u>
Accumulated deficit July 1, 2000	<u><u>\$ (667)</u></u>

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**NOTE 13 - RENTAL AND SERVICE AGREEMENTS**

Beginning July 7, 2000, the School agreed to lease classroom and office space from Kids-Play, Inc. The agreement began on August 16, 2000, and expired on June 15, 2001. Total payments for use of these facilities was \$40,000. A new lease was entered with Kids-Play, Inc. for the period August 16, 2001 through August 15, 2004. The School will pay Kids-Play, Inc. \$7,000 each month throughout the lease.

During 2001, Kids-Play, Inc. also provided food services for the School's students. The School paid Kids-Play, Inc. \$15,258 for this service during 2001. This agreement remains in effect through August 15, 2004 with no stated renewal option.

**NOTE 14 - CONTINGENCIES**

**GRANTS** - The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

**LITIGATION** - A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) School program violates the State Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

**NOTE 15 - STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a timeline for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**NOTE 15 - STATE SCHOOL FUNDING DECISION (Continued)**

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 22, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**NOTE 16 - RELATED PARTY TRANSACTIONS**

Three Board Members are also School employees. The School's transactions with these Board Members were limited to salaries and benefits which amounted to \$140,161 for the fiscal year ended June 30, 2001.

Another Board Member is on the Board of Directors for Kids-Play, Inc (Kids-Play). The School's transactions with Kids-Play were limited to the building lease and the food service agreements. Total payments for the fiscal year ended June 30, 2001 to Kids-Play for the building lease and food service amounted to \$40,000, and \$15,258, respectively.

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STATE OF OHIO  
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## REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lighthouse Educational Development Corporation  
d.b.a. Lighthouse Community School and Professional Development Academy  
388 South Main Street  
Akron, Ohio 44311-1059

To the Board of Trustees:

We have audited the financial statements of the Lighthouse Educational Development Corporation, d.b.a. Lighthouse Community School and Professional Development Academy, Summit County, Ohio, (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 22, 2002. 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.

### Compliance

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 and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2001-10977-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated February 22, 2002.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2001-10977-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

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

**Jim Petro**  
Auditor of State

February 22, 2002

**LIGHTHOUSE EDUCATIONAL DEVELOPMENTAL CORPORATION  
d.b.a. THE LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT  
ACADEMY  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2001**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	2001-10977-001
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**Noncompliance and Material Weakness**

Article III, Section B of the contract between Lighthouse Community School and Professional Development Academy (School) and the Ohio Department of Education (ODE) requires the School to maintain financial records in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.

Exhibit 2 of the same contract, requires the Board of Trustees of the School to keep accounting records on an accrual basis and according to generally accepted principals (GAAP). Lastly, the School was required to maintain accounting records using the Uniform School Accounting System (USAS), which is set forth in Ohio Admin. Code Section 117-6-01, the USAS Manual and Auditor of State bulletins.

Throughout fiscal year 2001 and contrary to the contract requirements, the School merely maintained a checkbook and did not maintain underlying accounting ledgers; therefore, a formal accounting system did not exist. As a result, management did not provide financial reporting packages to the Board of Trustees (Board) for review, discussion, and subsequent approval. The Board's ability to make informed financial decisions was limited.

We also noted that certain supporting documentation for 15 financial transactions was not readily available. Except for one of those transactions, the School ultimately located and provided the necessary documentation to us.

The School should maintain its financial records in accordance with Ohio Admin. Code Sections 117-02-01, 117-2-02 and 117-6-01. Those sections require in pertinent part:

- Receipt account codes that identify the source of revenues received by the School, such as state foundation, operating grants, materials and fees, and other revenue
- Expenditure account codes that identify the type of expenses incurred by the School, such as salaries, fringe benefits, purchased services, materials and supplies, etc
- Separate accounts for grant receipts and expenditures that are restricted for specific purposes, such as Federal Title Grants
- Detailed ledgers which reflect each transaction posted to a particular account to facilitate the preparation of monthly and annual financial reports

The School should also maintain readily available supporting documentation for all receipts and expenditures. Additionally, each month, management should provide a financial reporting package to the Board for review, discussion, and approval. Finally, management and the Board should periodically review the contract. If needed, management and the Board should make any necessary administrative or operational changes to ensure the School complies with the various contract provisions.







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION**

**SUMMIT 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  
MARCH 26, 2002**