

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Lighthouse Community School, Hamilton County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. 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

March 5, 2007

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**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY
AUDIT REPORT
For the Year Ending June 30, 2006**

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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, 2006, 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, 2006, 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 7, 2006 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
December 7, 2006

LIGHTHOUSE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The discussion and analysis of the Lighthouse Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the 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 \$105,046, which represents a 18 percent increase from 2005. This increase is due to an anonymous donation of \$50,000 and a donation from an affiliate organization of \$52,200.
- ❑ Total assets increased \$98,552, which represents a 15 percent increase from 2005. The School made \$38,263 in leasehold improvements and purchased a computer based learning software of \$39,724. Also, cash at June 30, 2006 increased \$75,321.
- ❑ Liabilities decreased \$6,494, which represents a 10 percent decrease from 2005. Accrued wages and benefits decreased by \$23,472, while accounts payable and contracts payable increased by \$8,587. Since the amounts deducted from the foundation payments are allocated through December 31, the accrual for the pension benefit liability at June 30 is for the period through December 31, making it larger than with the direct payment method.

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, 2006
(Unaudited)

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2006?" 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 2006 and fiscal year 2005:

(Table 1)
Net Assets

	2006	2005
Assets		
Current Assets	\$530,923	\$489,290
Capital Assets, Net	231,240	174,321
Total Assets	762,163	663,611
Liabilities		
Current Liabilities	34,459	47,080
Non-Current Liabilities	23,785	17,658
Total Liabilities	58,244	64,738
Net Assets		
Invested in Capital Assets	231,240	174,321
Unrestricted	472,679	424,552
Total Net Assets	\$703,919	\$598,873

- Total assets increased \$98,552. The School made \$38,263 in leasehold improvements and purchased a computer based learning software of \$39,724. Also, cash at June 30, 2006 increased \$75,321.

LIGHTHOUSE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006 and fiscal year 2005, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2006	2005
Operating Revenues:		
Foundation Payments	\$367,758	\$310,797
State Special Education Program	274,759	242,970
FY01 Funding Level Adjustment	140,217	147,166
Other	46,543	95,657
Non-Operating Revenues:		
Federal and State Grants	122,641	113,277
Funding from School sponsor	120,000	120,000
Interest	8,682	442
Other	128,329	300
Total Revenues	1,208,929	1,030,609
Operating Expenses		
Salaries	434,660	548,384
Fringe Benefits	124,252	124,325
Purchased Services	463,793	423,577
Materials and Supplies	10,672	15,401
Depreciation	28,301	13,140
Other Expenses	42,205	31,120
Total Expenses	1,103,883	1,155,947
Increase (Decrease) in Net Assets	\$105,046	(\$125,338)

Net assets increased from 2005 to 2006, the amount of change in net assets from the beginning to the end of each year increased \$230,384. Salaries decreased \$113,724 due to the reduction of three teachers. Purchased Services increased \$40,216 due to the use of a consultant and the School contracted for a bus service (increase of \$16,608). Management fees increased \$19,000.

Fixed Assets

At the end of fiscal year 2006 the School had \$96,028 invested in furniture, fixtures, and equipment and \$214,421 in leasehold improvements, which represented an increase of \$85,220 from 2005. Table 3 shows fiscal year 2006 and fiscal year 2005:

LIGHTHOUSE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

(Table 3)
Fixed Assets at June 30, 2006
(Net of Depreciation)

	2006	2005
Furniture, Fixtures, and Equipment	96,028	49,070
Leasehold Improvements	214,421	176,158
Less: Accumulated Depreciation	(79,209)	(50,907)
Totals	\$231,240	\$174,321

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 2005-2006 school year, there were approximately 61 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2006 amounted to \$13,212 per student.

Fiscal year 2006 was a turn around year for the School. While there was much staff turnover in 2005, in 2006 there were only two staff replacements. A computer based learning system was installed. Also a major donation of over \$50,000 was received.

Contacting the School's Financial Management

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

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006**

Assets

Current Assets

Cash	\$ 476,150
Petty Cash	250
Accounts Receivable	30,000
Intergovernmental Receivable	13,048
Prepaid Expenses	<u>11,475</u>
Total Current Assets	<u>530,923</u>

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>231,240</u>
Total Assets	<u>\$ 762,163</u>

Liabilities

Current Liabilities

Accounts payable	\$ 13,189
Intergovernmental payable	3,899
Contract payable	9,127
Accrued Wages and Benefits	<u>8,244</u>
Total Current Liabilities	<u>34,459</u>

Non-Current Liabilities

Compensated absences payable	<u>23,785</u>
Total Liabilities	<u>58,244</u>

Net Assets

Investment in Capital Assets	231,240
Unrestricted	<u>472,679</u>
Total Net Assets	<u><u>\$ 703,919</u></u>

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

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

Operating Revenues

Foundation payments	\$ 367,758
State special education program	274,759
FY01 funding level adjustment	140,217
Other	46,543
Total Operating Revenues	<u>829,277</u>

Operating Expenses

Salaries	434,660
Fringe Benefits	124,252
Purchased Services:	
Contract Services	112,004
Rent & Utilities	77,252
Occupancy Costs	73,635
Equipment	8,730
Management Fees	152,000
Food Service	34,692
Other purchased services	5,480
Supplies and materials	10,672
Depreciation	28,301
Other	42,205
Total Operating Expenses	<u>1,103,883</u>

Operating (Loss) (274,606)

Non-operating Revenues

Federal Grants	116,808
State Grants	5,833
Cincinnati Public School	120,000
Donations	128,329
Interest Earnings	8,682
Total Non-Operating Revenues	<u>379,652</u>

Change in Net Assets 105,046

Net Assets Beginning of year	<u>598,873</u>
Net Assets End of year	<u><u>\$ 703,919</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, 2006**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Others	\$ 48,943
Cash Received from Foundation Payments	367,758
Cash Received from Disadvantaged Pupil Impact Aid	414,976
Cash Payments to Suppliers for Goods and Services	(508,084)
Cash Payments to Employees for Service	(458,132)
Cash Payments for Employee Benefits	<u>(115,861)</u>
Net Cash Used for Operating Activities	<u>(250,400)</u>

Cash Flows from Noncapital Financing Activities

Other Non-Operating Revenues	128,329
Federal and State Subsidies Received	124,153
Prepaid rent	(225)
Other Non-operating revenue	<u>150,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>402,257</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(85,219)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(85,219)</u>

Cash Flows from Investing Activities

Interest	<u>8,682</u>
Net Increase in Cash and Cash Equivalents	75,320
Cash beginning of year	<u>401,080</u>
Cash end of year	<u><u>\$ 476,400</u></u>

Reconciliation of Operating Income to Net Cash Used for Operating Activities

Operating Loss	\$(274,606)
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Adjustment to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	28,301
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	2,400
Decrease in Accounts Payable	8,423
Increase in Intergovernmental Payable	2,264
Decrease in Accrued Wages Payable	(23,472)
Increase in Compensated Absences	6,127
Increase in Contract Payable	<u>163</u>
Total Adjustments	<u>24,206</u>
Net Cash Used for Operating Activities	<u><u>\$(250,400)</u></u>

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

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The School operates under the direction of a 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 provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 7 non-certified and 3 certificated full time teaching personnel who provide services to 61 students.

NOTE 2 – RELATED ORGANIZATION

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

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

Lighthouse Community School paid Lighthouse Youth Services, Inc. \$152,000 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.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Fixed Assets

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

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

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

F. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees. The School does not pay sick leave benefits upon termination or retirement.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

G. Net Assets

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

H. Operating Revenues and Expenses

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

I. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The School received capital contributions of \$74,594 from its affiliated organization and \$53,735 from other outside sources during fiscal year 2006.

J. Estimates

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

NOTE 4 - DEPOSITS

At fiscal year end, the carrying amount of the School's deposits was \$476,150, and the bank balance was \$533,386. Of the bank balance, \$100,000 was covered by federal depository insurance. \$433,386 was uncollateralized.

Investments: The School had no investments at June 30, 2006, or during the fiscal year.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2006, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Amounts
Title II-A	\$732
Title II-D	453
STRS	8,004
USDA Meals	3,859
Total All Intergovernmental Receivables	\$13,048

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Business-Type Activity				
Capital Assets Being Depreciated				
Leasehold Improvements	\$176,158	\$38,263	\$0	\$214,421
Furniture, Fixtures, and Equipment	49,071	46,957	0	96,028
Total Capital Assets				
Being Depreciated	225,229	85,220	0	310,449
Less Accumulated Depreciation:				
Leasehold Improvements	(8,808)	(17,743)	0	(26,551)
Furniture, Fixtures, and Equipment	(42,100)	(10,558)	0	(52,658)
Total Accumulated Depreciation	(50,908)	(28,301)	0	(79,209)
Total Capital Assets				
Being Depreciated, Net	174,321	56,919	0	231,240
Business-Type Activity				
Capital Assets, Net	\$174,321	\$56,919	\$0	\$231,240

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School contracted with Philadelphia Insurance Company for general liability and property insurance and Philadelphia Insurance Company for educational errors and omissions insurance.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Coverages are as follows:

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

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

B. Workers' Compensation

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 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 the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$43,219, \$40,017, and \$34,980, respectively; 100 percent has been contributed for fiscal years 2005 and 2004 and 90 percent for fiscal year 2006. \$3,899 represents the unpaid contribution for fiscal year 2006. 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, 2006

B. State Teachers Retirement System of Ohio

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$21,610, \$35,359, and \$36,960, respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. At June 30, 2005 (the latest information available) the balance in the fund was \$3.3 billion. Net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit participants. For the School, this amount equaled \$1,543 for fiscal year 2006.

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, employer contributions to fund health care benefits were 3.43 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 \$27,400. 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. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$14,563.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 (the latest information available) were \$178,221,113. 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, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. 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 receive benefits at June 30, 2005 (the latest information available) was 58,123.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Trustees. Teachers, administrators, and classified staff earn up to thirty days of vacation per year, depending upon the position, scheduled hours, and length of service. Accumulated unused vacation time is paid to all employees upon termination of employment, but sick leave is not paid.

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

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

B. Insurance Benefits

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

NOTE 11 – STATE SCHOOL FUNDING DECISION

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

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

NOTE 12 - CONTINGENCIES

A. Grants

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

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

material adverse effect on the overall financial position of the School at June 30, 2006.

B. Other Grants

The School's contract with its sponsor, Cincinnati Public Schools, provides for supplemental payments as defined in the contract with the sponsor. The School received \$120,000 during fiscal year 2006 and 2005, based on this contract.

C. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for the fiscal year 2006 was performed in August 2006.

D. Litigation

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

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

Legislation was enacted (Section 38 of the Am. Sub. H.B. 405) that stipulated that the change in weighted funding for disabled students identified as severe behavior handicapped from FY01 and subsequent years not result in a loss of funds to community schools with over 50 percent of its student population identified as severe behavior handicapped. Lighthouse Community School received \$140,217 during fiscal year 2006 and \$147,166 during fiscal year 2005 under this special funding and is designated as "FY01 Funding Level Adjustment."

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland, OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

**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, Inc. (the "School") as of and for the year ended June 30, 2006 and have issued a report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

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

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the School in a separate letter dated December 7, 2006.

Compliance and Other Matters

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

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

Charles E. Harris and Associates, Inc.

December 7, 2006

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ended June 30, 2005, 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
MARCH 15, 2007**