



**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY
TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2008	9
Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2008	10
Statement of Cash Flows for the Fiscal Year Ended June 30, 2008.....	11
Notes to the Financial Statements.....	13
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	27

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Villaview Lighthouse Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Villaview Lighthouse Community School, Cuyahoga County, Ohio, as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The School incurred a net loss of \$670,406 for the year ended June 30, 2008 and accumulated a total net deficit of \$873,862 as of June 30, 2008. Management's plan in regards to these matters is described in Note XII.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2010, 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, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

April 5, 2010

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2008

The discussion and analysis of Villaview Lighthouse Community School’s, (VLCS), financial performance provides an overall review of VLCS’s financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at VLCS’s financial performance as a whole. Readers should also review the Notes to the Financial Statements to enhance their understanding of VLCS’s financial performance.

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

Financial Highlights

Key financial highlights for 2008 include the following:

- VLCS has a deficit net assets totaling (\$874K) after its first two years of operations. The cumulative losses are financed primarily by unsecured loans from Lighthouse Academies, Inc (LHA), VLCS’s Charter Management Organization (CMO). Total amount owed to LHA as of June 30, 2008 was \$508K. Other debt as of June 30, 2008 attributable to the operating losses include unpaid rent totaling \$280K, over-funding by ODE of Special Education Revenue \$44K to be repaid in FY09, and other bills related to FY08 paid in FY09 totaling \$41K.
- VLCS’s pilot year in FY 2007 had 64 students. The small size, in part, contributed to the first year loss of (\$204K).
- In fiscal year 2008, VLCS moved to a new facility in Cleveland located at 19114 Bella Drive. The facility will accommodate 520 students. The facility is leased under a 10 year operating lease from Cleveland Lighthouse West, LLC with monthly rent of \$35,000 per month plus utility and operating expenses. The new school building was late with finished construction and as a result VLCS was underenrolled by 50 students to start. Loss of students throughout the year caused a loss of approximately another 20 students. VLCS notified the landlord that it could not pay rent for the current year and stopped paying rent in October 2007. VLCS offered to purchase the building and include unpaid rent totaling \$280,000 into the purchase price. The offer to purchase was rejected and as a result VLCS vacated the premises at the end of VLCS year on June 30, 2008. Increased busing costs, lease default, and relocation costs brought the year end loss to \$670K for FY08.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL

— A Community School —

Cuyahoga County

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

- Operating expense totaled \$2,982,075, with the largest expenses being purchased services of \$2,664,992. Purchased services included instructional \$905,795, administrative \$571,024, staff development of \$72,126, support staffing \$44,102; rent and other occupancy costs \$693,337, third party transportation \$211,686, and food services \$166,922. The staff are employees of Lighthouse Academies Inc and as part of the contract reimbursed by VLCS. Other material expenditures for the year included supplies and materials totaling \$287,262 and included furniture and textbooks purchased with a grant \$172,520. Interest and other operating expenses totaled \$29,820.
- Non-operating revenues of \$568,399 were mostly federal awards including; the Public Charter School Program (PCSP) \$275,443; and Title I \$124,724. The PCSP grant was used to finance start up costs including furniture and textbooks.

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets looks at how well VLCS has performed financially from inception through June 30, 2008. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of VLCS's Statements of Net Assets for fiscal years ended June 30, 2008 and 2007.

<u>Assets:</u>	<u>2008</u>	<u>2007</u>
<u>Total Assets:</u>		
Cash	\$47,598	\$42,443
Due from Other Governments	282,549	2,383
Accounts Receivable	1,895	1,000
Security Deposit	<u>0</u>	<u>35,000</u>
<i>Total Assets</i>	<u>\$332,042</u>	<u>\$80,826</u>

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008

Liabilities:

Current Liabilities:

Accounts Payable and Accrued Expenses	\$372,563	\$54,282
Due to Other Governments	44,542	0
Loans Payable	<u>712,855</u>	<u>73,117</u>
<i>Total Current Liabilities</i>	<u>1,129,960</u>	<u>127,399</u>

Long Term Liabilities:

Loans Payable	<u>75,944</u>	<u>156,883</u>
<i>Total Long Term Liabilities</i>	<u>75,944</u>	<u>156,883</u>

<i>Total Liabilities</i>	<u>1,205,904</u>	<u>284,282</u>
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Net Assets:

Unrestricted	<u>(873,862)</u>	<u>(203,456)</u>
<i>Total Net Assets</i>	<u>(873,862)</u>	<u>(203,456)</u>

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal years ended June 30, 2008 and 2007.

The following schedule provides a summary of VLCS's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2008 and 2007.

Operating Revenues:

	<u>2008</u>	<u>2007</u>
Foundation and Poverty Based Assistance Revenues	\$1,743,269	\$ 452,774
Other Operating Revenues	<u>0</u>	<u>227</u>
<i>Total Operating Revenues</i>	<u>1,743,269</u>	<u>453,001</u>

Operating Expenses:

Purchased Services	2,664,992	726,913
Materials and Supplies	287,262	113,713
Interest Expense	14,732	1,006
Other Operating Expenses	<u>15,088</u>	<u>3,225</u>
<i>Total Operating Expenses</i>	<u>2,982,074</u>	<u>844,857</u>

Operating Loss	<u>(1,238,805)</u>	<u>(391,856)</u>
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VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008

<u>Non-Operating Revenues:</u>		
Federal and State Grants	547,246	188,400
Other Non Operating Revenues	<u>21,153</u>	<u>0</u>
<i>Total Non-Operating Revenues</i>	<u>568,399</u>	<u>188,400</u>
Net Loss	(670,406)	(203,456)
Net Assets at Beginning of Year	<u>(203,456)</u>	<u>0</u>
Net Assets at End of Year	<u>(\$873,862)</u>	<u>(\$203,456)</u>

The cumulative losses have been financed principally by Lighthouse Academies, Inc and unpaid rent. Below are the sources to finance the cumulative deficits that existed as of June 30, 2008 and 2007, respectively. Included in the operating expenses are accrued but unpaid rent, interest expense and management fees.

Sources of deficit financing	<u>2008</u>	<u>2007</u>
Current Year Borrowings:		
Loans from LHA	\$508,799	\$230,000
Owed to Government	44,542	0
Other Accrued Expenses	40,521	0
Unpaid Rent	<u>280,000</u>	<u>0</u>
Amounts financed by LHA	<u>\$873,862</u>	<u>\$230,000</u>

Current Financial Issues

Villaview Lighthouse Community School opened in the fall of 2006. In its initial year of operation it had 64 students, five teaching staff members and expenses of \$844,847 and experienced a deficit of (\$203,456). In 2008, VLCS was under-enrolled and experienced extraordinary expenses for facilities, busing, and relocation. VLCS did not pay rent for FY08 totaling \$280,000 and currently there is no communication with the prior landlord regarding the amount owed. Starting with fiscal year 2009, VLCS has relocated back to 1701 E 12th St, Cleveland OH as a grade 4 through 7 upper academy, sharing space with Cleveland Lighthouse Community School (CLCS) which is a lower

academy school. CLCS is a separate community school with a common board as VLCS. The shared costs with CLCS will decrease the overhead and VLCS is currently forecasted to have a balanced budget, excluding the deferred management fees owed to LHA. The two schools are providing their own transportation, and have lowered the facility costs. Enrollment is currently at target. VLCS

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL

— A Community School —

Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

expects to continue to operate despite the large losses for FY06 and FY07 as the majority of the debt is to LHA who has agreed to defer the payments on the debt, and monies owed on the Bella Dr facility in the form of unpaid rent, which although unresolved is not a secured debt against VLCS's assets or future cash flows.

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VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement Of Net Assets
As of June 30, 2008

Assets:

Current Assets:

Cash	\$47,598
Due from Other Governments	282,549
Accounts Receivable	<u>1,895</u>
<i>Total Assets</i>	<u>\$332,042</u>

Liabilities:

Current Liabilities:

Accounts Payable and Accrued Expenses	\$372,563
Due to Other Governments	44,542
Loans Payable	<u>712,855</u>
<i>Total Current Liabilities</i>	<u>1,129,960</u>

Long Term Liabilities:

Loans Payable	<u>75,944</u>
<i>Total Long Term Liabilities</i>	<u>75,944</u>

Total Liabilities 1,205,904

Net Assets:

Unrestricted	(873,862)
<i>Total Net Assets</i>	<u>(873,862)</u>

See Accompanying Notes to the Basic Financial Statements

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

**Statement Of Revenues, Expenses And
Changes In Net Assets
For The Fiscal Year Ended June 30, 2008**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	<u>\$1,743,269</u>
<i>Total Operating Revenues</i>	<u>1,743,269</u>

Operating Expenses:

Purchased Services	2,664,992
Materials and Supplies	287,262
Interest Expense	14,732
Other Operating Expenses	<u>15,088</u>
<i>Total Operating Expenses</i>	<u>2,982,074</u>

Operating Loss	<u>(1,238,805)</u>
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Non-Operating Revenues:

Federal and State Grants	547,246
Other Non Operating Revenues	<u>21,153</u>
<i>Total Non-Operating Revenues</i>	<u>568,399</u>

Net Loss	<u>(670,406)</u>
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Accumulated Deficit at Beginning of Year	<u>(203,456)</u>
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Accumulated Deficit at End of Year	<u>(\$873,862)</u>
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See Accompanying Notes to the Basic Financial Statements

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement of Cash Flows
For The Fiscal Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$ 1,785,424
Cash paid to employees and vendors for goods and services	(2,168,502)
Net cash used for operating activities	<u>(383,078)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	262,880
State grants received	4,200
Loan from Lighthouse Academies Inc.	100,000
Other Non Operating Revenues	21,153
Net cash provided by noncapital financing activities	<u>388,233</u>

NET INCREASE IN CASH 5,155

CASH - Beginning of year 42,443

CASH - End of year \$ 47,598

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

Operating Loss:	\$ (1,238,805)
Change in Assets and Liabilities---	
Increase in Accounts Receivable	(896)
Decrease in Security Deposit	35,000
Increase in Accounts Payable and Accrued Expenses	318,282
Increase in Due to Government	44,542
Increase in Loans Payable and Deferred Fee	178,799
Increase in Rent Owed	280,000
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (383,078)</u>

See Accompanying Notes to the Basic Financial Statements

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VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

I. Description of the School and Reporting Entity

Villaview Lighthouse Community School (VLCS) is a nonprofit corporation established on June 22, 2006 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. VLCS's tax exempt status is under review by the Internal Revenue Service. VLCS, which is part of Ohio's education program, is independent of any school district. VLCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of VLCS.

On April 18, 2006, VLCS was approved for operation under a contract between the Governing Authority of VLCS and ASHE Culture Center, Inc. (ASHE) as their sponsor. Under the terms of the contract ASHE will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of VLCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note X for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on June 22, 2006 under the name Cleveland Lighthouse Charter Community School – West and officially changed its name to Villaview Lighthouse Community School on May 17, 2007.

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

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

II. Summary of Significant Accounting Policies

The financial statements of VLCS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. VLCS also applies Financial

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

II. Summary of Significant Accounting Policies (Continued)

Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of VLCS' accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

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

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

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

II. Summary of Significant Accounting Policies (continued)

3. Cash

All monies received by VLCS are deposited in demand deposit accounts. Total cash for VLCS is presented as “Cash” on the accompanying Statement of Net Assets. Cash as of June 30, 2008 represents bank deposits which are covered by federal depository insurance.

4. Budgetary Process

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

5. Due from Other Governments

Due from Other Governments as of June 30, 2008, consisted of the following Federal Grants:

<u>Due from Other Governments</u>	<u>Amount</u>
Public Charter Schools Grant (PCSP)	\$222,976
Title I	26,737
Lunch Program	20,914
IDEA	10,144
Title II(a)	<u>1,778</u>
Total Federal Grants Due from Other Governments	<u>\$282,549</u>

6. Security Deposit

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

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

II. Summary of Significant Accounting Policies (continued)

7. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. VLCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

8. Intergovernmental Revenues

VLCS currently participates in the State Foundation Program and the Poverty Based Assistance (PBA) program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

II. Summary of Significant Accounting Policies (continued)

8. Intergovernmental Revenues (continued)

<u>Intergovernmental Revenues</u>	<u>Amount</u>
State Foundation and Poverty Based Assistance	\$1,594,989
State Transportation	85,511
State Special Needs	62,769
Other State Grants	4,200
PCSP Program	275,443
Free and Reduced Lunch and Breakfast	116,367
Federal IDEA	18,758
Title I	124,724
Title II(a)	5,399
Title II(d)	1,353
Title IV	821
Title V	<u>181</u>
Total Intergovernmental Revenues	<u><u>\$2,290,515</u></u>

9. Compensated Balances

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

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum amount of one hundred twenty days. VLCS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

II. Summary of Significant Accounting Policies (continued)

10. Use of Estimates

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

III. Deposits

At fiscal year end June 30, 2008, the carrying amount of VLCS's deposits totaled \$47,598 and its bank balances were \$65,141. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

VLCS has no deposit policy for custodial risk beyond the requirements of State Statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with VLCS or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being pledged.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

IV. Purchased Services

Purchased Services include the following:

Instruction	\$905,795
Administrative	571,024
Staff development	72,126
Pupil Support Services	44,102
Occupancy Costs	693,337
Transportation	211,686
Food Services	<u>166,922</u>
Total	<u>\$2,664,992</u>

V. Operating Leases

VLCS leased its facilities at 19114 Bella Dr, Cleveland Ohio from Cleveland Lighthouse Facility West, LLC under a multi year lease agreement effective July 1, 2007 and expiring June 30, 2017. During fiscal year 2008 rents totaled \$373,311. Future minimum lease payments are as follows:

2009	\$420,000
2010	428,400
2011	436,968
2012	445,707
2013 and thereafter	2,365,868

VI. Risk Management

1. Property and Liability Insurance

VLCS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, VLCS contracted with Philadelphia Insurance Company for all of its' insurance.

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

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

VI. Risk Management (continued)

2. Workers' Compensation

VLCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2008 there has been one claim filed by VLCS employees with the Ohio Worker's Compensation System that is still pending.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

Plan Description - VLCS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and VLCS is required to contribute at an actuarially determined rate. The current VLCS rate is 14 percent of annual covered payroll. A portion of VLCS's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. VLCS's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$31,303, \$530 and \$0 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

2. State Teachers Retirement System

Plan Description - VLCS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. VLCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for

employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. VLCS's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$85,114, \$0, and \$0 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$85,114 made by VLCS and \$60,795 made by the plan members.

3. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, no members have elected Social Security. The contribution rate is 6.2 percent of wages.

IX. Post-Employment Benefits

1. School Employee Retirement System

Plan Description – VLCS participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

IX. Post-Employment Benefits (Continued)

1. School Employee Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

VLCS's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$144,043, \$165, and \$0 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. VLCS's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$17,585, \$0, and \$0 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

2. State Teachers Retirement System

Plan Description – VLCS contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. VLCS's contributions for health

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

IX. Post-Employment Benefits (Continued)

2. State Teachers Retirement System (Continued)

care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$6,079, \$0, and \$0 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

IX. Contingencies

1. Grants

VLCS 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 VLCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of VLCS at June 30, 2008.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. For the year ended June 30, 2008, repayment of special education revenue totaled \$40K and FTE's totaled \$4K.

X. Sponsorship and Management Agreement

VLCS entered into an agreement with Ashe Culture Center, Inc. to provide sponsorship and oversight services as required by law. Sponsorship fees are calculated as 3% of state funds received by VLCS, from the State of Ohio. The total amount due from VLCS for fiscal year 2007 was \$50,997 all of which was paid prior to June 30, 2008.

VLCS entered into an agreement with Lighthouse Academies, Inc., a nonprofit organization, (LHA) to provide educational and operational management, legal, financial, and business management services for the fiscal year 2008. The agreement is for a five period with renewal if the charter renews. Management fees are calculated as 7.5% of VLCS's revenues,

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

X. Sponsorship and Management Agreement (Continued)

excluding money for the food program. This fee is subordinated to the landlord's lease payments and payable after the school year. For the year ended June 30, 2008 management fees totaled \$163,061 and \$0 has been paid.

XI. Related Parties

The members of the VLCS Board of Trustees are also members of Cleveland Lighthouse Community School. VLCS contracts with LHA for educational, operational, legal, financial and business management services.

XII. Management Plan

For fiscal year 2008, VLCS had an operating loss of \$1,238,805 a net loss of \$670,406, and a net asset deficit of \$873,862. VLCS expects to have a balanced budget for 2009 excluding accrued but unpaid management fees to LHA. VLCS has new leadership which plans to encourage community involvement in order to increase student enrollment. VLCS also plans to provide some of their own transportation services in order to lower transportation costs. Once enrollment increases and transportation costs decrease, it should allow VLCS to reduce its operating losses and begin reducing the cumulative net deficit.

XIII. Debt Obligations

	Balance 6/30/07	Additions	Reductions	Balance 6/30/08	Amount Due within Year
Loan Payable	\$ 230,000	\$ 11,618	\$ -	\$ 241,618	\$ 165,674
Rent Payable	0	280,000	-	280,000	280,000
Loan Payable	0	163,061	-	163,061	163,061
Loan Payable	0	104,120	-	104,120	104,120
Total	\$ 230,000	\$ 558,799	\$ -	\$ 788,799	\$ 712,855

The Loan Payable for \$230,000 is a startup loan in the form of a promissory note payable to Lighthouse Academies, Inc. (LHA), which is VLCS's management firm, and is payable in 36 months beginning on July 1, 2007. Accrued interest in the amount of \$11,618 was added to the loan as of June 30, 2008. The loan matures on May 27, 2010 and is included in amounts due within one year.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Notes To The Financial Statements
For The Year Ended June 30, 2008

XIII. Debt Obligations (Continued)

The rent payable for \$280,000 is payable to Cleveland Lighthouse West, LLC, for fiscal year June 30, 2008. The amount is past due.

The Loan Payable for \$163,061 is a liability to VLCS's management firm (LHA) for unpaid management fees.

The Loan Payable for \$104,120 is an Operating Loan in the form of a promissory noted payable to LHA. This is payable when VLCS has available cash for repayment. No specific repayment date is required. VLCS has made no payments in FY 08 but intends to pay it off in three years.

XIV. Subsequent Events

In July, 2008 the common Board of Trustees for Cleveland and Villaview Community Schools agreed to share space at 1201 East 12th St.

In July, 2009, the school changed its name from Villaview Lighthouse Community School to Villaview Community School.

In June, 2009 the Board of Trustees of Villaview Community School and Lighthouse Academies Inc mutually agreed to terminate the Lighthouse service agreement. This became effective August, 2009. The Board agreed to discontinue the use of the Lighthouse name.

As part of the termination of the Lighthouse contract the Board agreed to make rental payments to Lighthouse under an equipment use agreement in exchange for continued use of Lighthouse property. The school has not made payments and as a result a lawsuit was filed by Lighthouse Academies for debt owed under loans instruments, use agreements, and service contracts. The lawsuit was filed in January 2010.

No amounts for rent owed under the defaulted lease have been paid or sought for collection.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Trustees:

We have audited the basic financial statements of Villaview Lighthouse Community School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2008, wherein we noted the School incurred a net loss of \$670,406 for the year ended June 30, 2008 and accumulated a net deficit of \$873,862 as of June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the School's management in a separate letter dated April 5, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

Mary Taylor, CPA
Auditor of State

April 5, 2010



Mary Taylor, CPA
Auditor of State

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 11, 2010**