



**Auditor of State  
Betty Montgomery**



**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

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Betty Montgomery**

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## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying Balance Sheets of Lighthouse Community School, Hamilton County, Ohio (the School), as of June 30, 2002, and 2001, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and the Statements of Cash Flows for the years then ended. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2002 and 2001, and the results of its operations and cash flows for the years then ended, in conformity with auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2002. We previously issued our report dated February 14, 2002, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2001. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

January 14, 2003

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**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**BALANCE SHEETS  
AS OF JUNE 30, 2002 AND 2001**

**Assets**

	2002	2001
<u>Current Assets</u>		
Cash	\$ 409,519	\$ 162,207
Petty Cash	250	
Accounts Receivable	22,010	9,163
Intergovernmental Receivable	17,044	16,729
Prepaid Expenses	2,000	
Total Current Assets	450,823	188,099
 <u>Non-Current Assets</u>		
Fixed Assets (Net of Accumulated Depreciation)	16,211	26,188
Total Assets	\$467,034	\$214,287

**Liabilities and Fund Equity**

<u>Current Liabilities</u>		
Accounts payable	\$20,875	\$34,328
Intergovernmental payable	2,455	3,297
Contract payable	10,488	21,662
Accrued Wages and Benefits	17,816	14,169
Total Current Liabilities	51,634	73,456
 <u>Long-term Liabilities</u>		
Compensated absences payable	20,232	19,888
Total Liabilities	71,866	93,344
 <u>Fund Equity</u>		
Unreserved Retained Earnings	395,168	120,943
Total Fund Equity	395,168	120,943
Total Liabilities and Fund Equity	\$467,034	\$214,287

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

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

	2002	2001
<b><u>Operating Revenues</u></b>		
Foundation payments	\$ 224,080	\$ 150,067
State special education program	225,218	268,229
FY01 funding level adjustment	184,290	
Miscellaneous	43,394	3,002
Total Operating Revenues	676,982	421,298
<b><u>Operating Expenses</u></b>		
Salaries	368,397	282,236
Fringe Benefits	109,464	98,603
Purchased Services		
Contract Services	85,185	64,466
Rent & Utilities	67,037	62,169
Equipment	8,155	24,823
Management Fees	80,100	66,000
Other purchased services	7,657	449
Supplies and materials	39,359	27,572
Depreciation	11,280	9,159
Other	25,468	10,053
Total Operating Expenses	802,102	645,530
Operating Loss	(125,120)	(224,232)
<b><u>Non-operating Revenues</u></b>		
Federal Grants	185,437	70,978
State Grants	7,675	52,000
Cincinnati Public School - school sponsor	75,404	33,197
Other grants	128,300	189,000
Donations	1,005	
Interest Income	1,524	
Total Non-Operating Revenues	399,345	345,175
Net Income	274,225	120,943
Retained earnings at beginning of year	120,943	-
Retained earnings at end of year	\$ 395,168	\$ 120,943

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



**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

<b><u>Increase (Decrease) in Cash</u></b>	2002	2001
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received from State of Ohio	\$ 633,588	\$ 418,296
Cash Payments to Suppliers for Goods and Services	(337,588)	(189,489)
Cash Payments to Employees for Service	(365,592)	(264,770)
Cash Payments for Employee Benefits	(109,120)	(78,715)
Other Operating Revenue	43,394	3,002
Other Operating Expenditures		(10,053)
Net Cash Used for Operating Activities	(135,318)	(121,729)
<b><u>Cash Flows from Noncapital Financing Activities</u></b>		
Other Grants Received	128,300	189,000
Federal and State Grants	192,797	106,249
Other Non-operating revenue	63,562	24,034
Interest Income	1,524	
Net Cash Provided by Noncapital Financing Activities	386,183	319,283
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Prepaid rent	(2,000)	
Acquisition of capital assets	(1,303)	(35,347)
Net Cash Used for Capital and Related Financing Activities	(3,303)	(35,347)
Net Increase in cash	247,562	162,207
Cash beginning of year	162,207	0
Cash end of year	\$ 409,769	\$ 162,207
<b><u>Reconciliation of Operation Loss to Net Cash Used for Operation Activities</u></b>		
Operating Loss	\$ (125,120)	\$ (224,232)
<b><u>Adjustment to Reconcile Operating Loss to Net Cash Used for Operation Activities</u></b>		
Depreciation	11,280	9,159
Changes in Assets and Liabilities		
Increase (Decrease) in Accounts Payable	(13,453)	34,328
Increase (Decrease) in Governmental Payable	(842)	3,297
Increase in Accrued Wages Payable	3,647	14,169
Increase in Compensated Absences	344	19,888
Increase (Decrease) in Contract Payable	(11,174)	21,662
Total Adjustments	(10,198)	102,503
Net Cash Used for Operating Activities	\$ (135,318)	\$ (121,729)

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

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**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Lighthouse Community School, Hamilton County, Ohio (the School), is a State governmental nonprofit corporation established pursuant to Ohio Revised Code, Chapters 3314 and 1702 to address the needs of students in grades six through eleven who exhibit severe behavioral handicaps, with a curriculum that provides academic credit. 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.

The School was approved for operation under contract with the Cincinnati City School District, Hamilton County, Ohio (the Sponsor), for a period of three years commencing July 1, 2000. 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 nine-member Board of Directors. 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 growth, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 4 certificated full-time teaching personnel who provided services to 51 students for Fiscal Year 2002.

**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. \$80,100 as specified in the contract during the fiscal year for these services, all of which has been paid. Lighthouse Youth Services, Inc. paid \$36,000 to Lighthouse Community School for the use of four part-time Instructional Assistants.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School 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 accounting and financial reporting principles. The School also applies Financial 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 the School's accounting policies are described below.

**A. Basis of Presentation**

**Enterprise Accounting**

The School uses enterprise accounting to track and report on its financial activities. 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.

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. 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 Rev. Code, Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a capitalization threshold of one thousand dollars. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The School does not possess any infrastructure.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

<u>Assets</u>	<u>Years</u>
Furniture and Equipment	5
Computers	3

**E. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 during fiscal year 2002 and \$50,000 during fiscal year 2001 to offset start-up costs of the School. Revenue received from this program is included in non-operating Federal Grants revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled \$559,508 and for the 2001 school year, the amounts awarded totaled \$680,274.

**G. Compensated Absences**

Vacation and leave benefits are accrued as a liability at year end if the employee's 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 and personal time when earned for all employees.

The entire amount of compensated absences is reported as a liability.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**4. DEPOSITS**

At June 30, 2002, the School had \$250 in cash on hand, which is included on the balance sheet of the School as "Petty Cash."

At June 30, 2002, the carrying amount of School's deposits was \$409,519. The bank balance was \$414,879. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining \$314,879 was not insured or collateralized.

At June 30, 2001, the carrying amount of School's deposits was \$162,207. The bank balance was \$172,964. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining \$72,964 was not insured or collateralized.

**5. RECEIVABLES**

Receivables at June 30, 2002 and 2001 consisted of funds from the School's sponsor, Cincinnati Public Schools and intergovernmental receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs and the current year guarantee of federal funds.

**6. FIXED ASSETS**

A summary of the School's fixed assets follows:

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Furniture and Equipment	\$36,649	\$35,347
Less: Accumulated depreciation	<u>(20,438)</u>	<u>(9,159)</u>
Net Fixed Assets	<u>\$16,211</u>	<u>\$26,188</u>

There was no construction in progress at June 30, 2002 and 2001.

**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. For fiscal year 2002, the School contracted with Philadelphia Insurance Company for property and general liability insurance. There is a \$1,000 deductible with a \$50,000 limit.

General liability is protected by Philadelphia Insurance Company with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible.

Employee dishonesty is protected by Philadelphia Insurance Company with a \$1,000,000 each claim and in aggregate limit.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**B. Worker's Compensation**

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

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries.

Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements, and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the school is required to contribute 5.46 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS was \$23,371 and \$16,233 for the fiscal years ended June 30, 2002 and 2001, respectively, and 100 percent has been contributed for fiscal years 2002 and 2001.

**B. State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 9.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS was \$27,146 and \$20,891 for the fiscal years ended June 30, 2002 and 2001, respectively. One Hundred percent was contributed for fiscal year 2002 and 84.3 percent was contributed for fiscal year 2001. For fiscal year 2001, \$3,297 represents the unpaid contribution and was recorded as a liability.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**9. POST EMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the State 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$8,726 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) the balance in the Fund was \$3,256,000. For the fiscal year ended June 30, 2000 (the latest information available) net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefits recipients.

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

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levied 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 2002, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$14,182 during the 2002 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.



**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**10. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation, sick and personal leave components are derived from School policies. Teachers, administrators, and classified employees 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. Teachers, administrators, and classified employees earn sick leave at the rate of one day per month. Sick leave may be accumulated up to 12 weeks, or 480 hours, and is not paid out upon termination.

Each full time employee receives two personal days per calendar year. Part time employees receive one personal day per calendar year. If hired after June 30<sup>th</sup>, employees receive one personal day for that calendar year; if hired after November 1<sup>st</sup>, employees receive no personal days for that calendar year. Personal days not used at the end of the calendar year are forfeited.

**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 noncertified employees.

**11. OPERATING LEASE**

The School entered into a one-year lease with the YMCA of Greater Cincinnati, Inc. to lease classroom space. The School paid \$24,000 in fiscal year 2002 and \$16,600 in 2001. The School has an option to renew the lease for an additional year. The School renewed their lease with the YMCA for fiscal year 2003.

**12. 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 plan 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 its financial operations.

**13. 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 a condition specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could be a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2002.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**13. CONTINGENCIES (Continued)**

**B. Litigation**

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

**14. FEDERAL EXEMPT LAWS**

Lighthouse Community School has obtained its 501(c)(3) tax exempt status. 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.

**15. OTHER GRANTS**

Lighthouse Community School was awarded a three-year grant from the Knowledge Works Foundation of \$112,300 (second year of grant) for development and operation of the school; a grant from the Segoe Family Foundation of \$10,000 for development and support of a library; and a \$6,000 grant from the Elkus Family Foundation for production of a play.

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 \$75,404 during fiscal year 2002 and \$33,197 during fiscal year 2001, based on this contract.

**16. CONTINGENCIES**

**A. 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. No. 405) that stipulated that the change in weighted funding for disabled students identified as severe behavior handicapped from FY 2001 to FY 2002 should 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 \$184,290 in fiscal year 2002 under this special funding and is designated as "FY01 Funding Level Adjustment."

**B. GRANTS**

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2002.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
(Continued)**

**17. OHIO DEPARTMENT OF EDUCATION REVIEWS**

The Ohio Department of Education conducts reviews of enrollment data 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 review resulted in the discovery of an underpayment to the School in the amount of \$17,571. As of the date of this report, these additional monies have been paid to the School.

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

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

To the Board of Trustees:

We have audited the accompanying financial statements of Lighthouse Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2002 and have issued our report thereon dated January 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated January 14, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we note a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the School in a separate letter dated January 14, 2003.

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

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

**Betty Montgomery**  
Auditor of State

January 14, 2003



**Auditor of State  
Betty Montgomery**

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**LIGHTHOUSE COMMUNITY SCHOOL**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 11, 2003**