



**Auditor of State
Betty Montgomery**

LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes In Net Assets	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying Statement of Net Assets of the Lighthouse Community School, Hamilton County, Ohio (the School), as of and for the years ended June 30, 2004, and 2003, and the related Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows for the years then ended. These basic 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 financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Community School, Hamilton County, Ohio, as of June 30, 2004 and 2003, and the changes in financial position and cash flows, thereof for the years then ended, in conformity with auditing standards generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005 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 years ended June 30, 2004 and 2003. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, 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.

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

Betty Montgomery
Auditor of State

February 11, 2005

LIGHTHOUSE COMMUNITY SCHOOL

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

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, 2004. 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 new 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 \$29,870, which represents a 90 percent decrease from 2003. This decrease was due to a decrease in students (3.4 FTE's) and a loss of a completed private grant and State Start Up Grant funds.
- Total assets increased \$8,313, which represents a one percent increase from 2003. This was primarily due to an increase in funding from the School's sponsor, Cincinnati Public Schools, which resulted in an increase in cash.
- Liabilities decreased \$21,557, which represents a 22 percent decrease from 2003. Accrued wages and benefits increased by \$7,875, while intergovernmental payables related to accrued pension benefits decreased by \$1,022. Accounts payable and contracts payable decreased by \$35,968. The decrease in payables was primarily due to prompt payment of outstanding invoices at June 30th. In fiscal year 2003, SERS benefits were paid directly by the School and in fiscal year 2004 the benefits were deducted from the state foundation payments made to the School. 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, 2004

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" 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 2004 and fiscal year 2003:

(Table 1)
Net Assets

	<u>2004</u>	<u>2003</u>
Assets		
Current Assets	\$796,933	\$785,112
Capital Assets, Net	3,835	7,343
Total Assets	<u>800,768</u>	<u>792,455</u>
Liabilities		
Current Liabilities	42,018	71,133
Non-Current Liabilities	34,539	26,981
Total Liabilities	76,557	98,114
Net Assets		
Invested in Capital Assets	3,835	7,343
Unrestricted	720,376	686,998
Total Net Assets	<u>\$724,211</u>	<u>\$694,341</u>

Total assets increased \$8,313. This increase was primarily due to an increase in funding from the School's sponsor. Cash increased by \$197,829 from 2003. Intergovernmental Receivables decreased by \$25,220. This decrease was due to the timing of the receipt of some grants. Capital Assets, net of depreciation decreased by \$3,508. Lighthouse Community School rents their facility from the YMCA, and has very few capital assets.

LIGHTHOUSE COMMUNITY SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Foundation Payments	\$310,252	\$316,433
State Special Education Program	286,941	296,040
FY01 Funding Level Adjustment	161,360	200,495
Other	42,601	49,843
Non-Operating Revenues:		
Federal and State Grants	111,325	269,568
Funding from School sponsor	110,858	99,208
Interest	3,251	5,215
Other	240	58,800
Total Revenues	<u>1,026,828</u>	<u>1,295,602</u>
Operating Expenses		
Salaries	511,507	456,252
Fringe Benefits	135,985	139,422
Purchased Services	293,631	310,389
Materials and Supplies	16,664	38,617
Depreciation	5,051	12,277
Other Expenses	34,120	39,472
Total Expenses	<u>996,958</u>	<u>996,429</u>
Income Before Contributions	29,870	299,173
Capital Contributions	<u>0</u>	<u>0</u>
Increase in Net Assets	<u><u>\$29,870</u></u>	<u><u>\$299,173</u></u>

Although net assets increased from 2003 to 2004, the amount of change in net assets from the beginning to the end of each year decreased \$269,303. This was primarily due to the completion of grants (Knowledge Works and State Start Up) in 2003. There was a decrease in revenues of \$268,774 and an increase in expenses of \$529 from 2003. Of the decrease in revenues, the State payments (Foundation payments, State Special Education Program, and FY01 Funding Level Adjustment) decreased by \$54,415. Community Schools receive no support from tax revenues.

LIGHTHOUSE COMMUNITY SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The expense for salaries increased by \$55,255 and the expense for fringe benefits decreased by \$3,437 from 2003. This was primarily due to an increase in staff during fiscal year 2004. Material and supplies expense decreased by \$21,953 from 2003. This decrease is due to a decrease in the purchase of textbooks and library books. Depreciation expense decreased by \$7,226. Assets, mainly computers, purchased when the school started operations in 2000 were fully depreciated in FY2003, thus causing the decrease in depreciation expense.

Capital Assets

At the end of fiscal year 2004 the School had \$41,603 invested in furniture, fixtures, and equipment, which represented an increase of \$1,544 from 2003. Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)
Fixed Assets at June 30, 2004
(Net of Depreciation)

	<u>2004</u>	<u>2003</u>
Furniture, Fixtures, and Equipment	41,603	40,059
<u>Less: Accumulated Depreciation</u>	<u>(37,768)</u>	<u>(32,716)</u>
Totals	<u><u>\$3,835</u></u>	<u><u>\$7,343</u></u>

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

Current Financial Issues

The Lighthouse Community School was formed in 2000. During the 2003-2004 school year, there were approximately 57 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2004 amounted to \$17,205 per student.

Contacting the School's Financial Management

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

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

Assets

	<u>2004</u>	<u>2003</u>
<u>Current Assets</u>		
Cash	\$750,795	\$552,966
Petty Cash	250	250
Accounts Receivable	27,714	186,103
Intergovernmental Receivable	18,173	43,393
Prepaid Expenses	-	2,400
Total Current Assets	796,933	785,112
<u>Non-Current Assets</u>		
Fixed Assets (Net of Accumulated Depreciation)	3,835	7,343
Total Assets	\$800,768	\$792,455

Liabilities

<u>Current Liabilities</u>		
Accounts payable	\$3,637	\$36,849
Intergovernmental payable	513	1,535
Contract payable	9,227	11,983
Accrued Wages and Benefits	28,641	20,766
Total Current Liabilities	42,018	71,133
<u>Non-Current Liabilities</u>		
Compensated absences payable	34,539	26,981
Total Liabilities	\$76,557	\$98,114
<u>Net Assets</u>		
Investment in Capital Assets	3,835	7,343
Unrestricted	720,376	686,998
Total Net Assets	\$724,211	\$694,341

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, 2004**

	<u>2004</u>	<u>2003</u>
<u>Operating Revenues</u>		
Foundation payments	\$ 310,252	\$ 316,433
State special education program	286,941	296,040
FY01 funding level adjustment	161,360	200,495
Other	42,601	49,843
Total Operating Revenues	<u>801,154</u>	<u>862,811</u>
<u>Operating Expenses</u>		
Salaries	511,507	456,252
Fringe Benefits	135,985	139,422
Purchased Services		
Contract Services	60,215	96,975
Rent & Utilities	49,871	52,752
Equipment	5,492	21,203
Management Fees	139,128	114,726
Food Service	32,429	16,282
Other purchased services	6,498	8,451
Supplies and materials	16,664	38,617
Depreciation	5,051	12,277
Other	34,120	39,472
Total Operating Expenses	<u>996,958</u>	<u>996,429</u>
Operating (Loss)	(195,804)	(133,618)
<u>Non-operating Revenues</u>		
Federal Grants	108,325	251,788
State Grants	3,000	17,780
Cincinnati Public School	110,858	99,208
Other grants		58,800
Donations	240	
Interest Earnings	3,251	5,215
Total Non-Operating Revenues	<u>225,674</u>	<u>432,791</u>
Change in Net Assets	29,870	299,173
Net Assets Beginning of year	694,341	395,168
Net Assets End of year	<u>\$ 724,211</u>	<u>\$ 694,341</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 FISCAL YEAR ENDED JUNE 30, 2004**

<i>Increase (Decrease) in Cash and Cash Equivalents:</i>	<u>2004</u>	<u>2003</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Others	\$ 42,601	\$ 49,844
Cash Received from Foundation Payments	310,252	316,433
Cash Received from Disadvantaged Pupil Impact Aid	448,301	496,534
Cash Payments to Suppliers for Goods and Services	(343,863)	(371,010)
Cash Payments to Employees for Services	(496,074)	(453,006)
Cash Payments for Employee Benefits	(137,007)	(133,889)
Cash Payments to Others	(34,120)	0
	<hr/>	<hr/>
Net Cash Used for Operating Activities	(209,910)	(95,094)
	<hr/>	<hr/>
<u>Cash Flows from Noncapital Financing Activities:</u>		
Other Non-Operating Revenues	240	85,115
Federal and State Subsidies Received	136,545	93,219
Operating Grants Received	269,247	58,800
	<hr/>	<hr/>
Net Cash Provided by Noncapital Financing Activities	406,032	237,134
	<hr/>	<hr/>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Prepaid Rent		(399)
Payments for Capital Acquisitions	(1,544)	(3,409)
	<hr/>	<hr/>
Net Cash Used for Noncapital Financing Activities	(1,544)	(3,808)
	<hr/>	<hr/>
<u>Cash Flows from Investing Activities:</u>		
Interest	3,251	5,215
	<hr/>	<hr/>
Net Increase in Cash and Cash Equivalents	197,829	143,447
Cash and Cash Equivalents at Beginning of Year	553,216	409,769
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	\$751,045	\$553,216
	<hr/> <hr/>	<hr/> <hr/>
	(continued)	(continued)

**LIGHTHOUSE COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</i>	<u>2004</u>	<u>2003</u>
Operating Loss	<u>(\$195,804)</u>	<u>(\$133,618)</u>
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</i>		
Depreciation	5,051	12,277
Changes in Assets and Liabilities:		
Decrease in Prepaid Items	2,400	0
Increase (Decrease) in Accounts Payable	(33,212)	15,974
Increase in Accrued Wages and Benefits	7,875	2,950
Decrease in Intergovernmental Payable	(1,022)	(920)
Increase (Decrease) in Contracts Payable	(2,756)	1,494
Increase in Compensated Absences	<u>7,558</u>	<u>6,749</u>
Total Adjustments	<u>(14,106)</u>	<u>38,524</u>
Net Cash Used for Operating Activities	<u><u>(\$209,910)</u></u>	<u><u>(\$95,094)</u></u>

See accompanying notes to the basic financial statements

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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. 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 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 6 certificated full time teaching personnel who provide services to 57 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. \$139,128 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 five part-time Instructional Assistants.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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. 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 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 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.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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. Capital Assets

Capital 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

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.

G. Net Assets

Net assets represent the difference between assets and liabilities. 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.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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's received no capital contributions during fiscal year 2004.

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 \$750,795, and the bank balance was \$759,649. Of the bank balance, \$100,000 was covered by federal depository insurance and \$659,649 was collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits.

Investments: The School had no investments at June 30, 2004, or during the fiscal year.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full and will be received within one year. Accounts receivables are all due from the Cincinnati City School District.

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, 2004

	Amounts
Title I	\$3,215
Title II-D	2,034
Title IV	627
Title VI-B IDEA-B	6,821
Title VI-R	1,585
USDA Meals	804
DPIA	3,087
Total All Intergovernmental Receivables	\$18,173

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Not Being Depreciated				
Furniture, Fixtures, and Equipment	40,059	1,544	0	41,603
Total Capital Assets	40,059	1,544	0	41,603
Being Depreciated	40,059	1,544	0	41,603
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(32,716)	(5,051)	0	(37,767)
Total Accumulated Depreciation	(32,716)	(5,051)	0	(37,767)
Total Capital Assets				
Being Depreciated, Net	7,343	(3,507)	0	3,836
Business-Type Activity				
Capital Assets, Net	\$7,343	(\$3,507)	\$0	\$3,836

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 2004, 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, 2004

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.

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.

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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003 and 2002 were \$34,980, \$18,115 and \$23,371, respectively; 96 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003. \$1,682 represents the unpaid contribution for fiscal year 2004. 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, 2004

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, by calling (614) 227-4090, or by visiting the STRS Ohio 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 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% 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, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 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% for members and 14% 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, 2004, 2003 and 2002 were \$36,960, \$30,489, and \$27,146 respectively; 98 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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.

All STRS Ohio benefit recipients and sponsored 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 Ohio. Most 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, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$5,115 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Stabilization Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

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. 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 a 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, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$3,481.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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.

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 3.1 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.

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.

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 material adverse effect on the overall financial position of the School at June 30, 2004.

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 \$110,857 during fiscal year 2004 and \$99,208 during fiscal year 2003, 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 of the State, upon which state foundation funding is calculated. For fiscal year 2004, the review was completed in August, 2004. For the School, there was an insignificant variance between the amount received to date.

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. The effect of this suit, if any, on the School is not presently determinable.

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 to FY04 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 \$161,360 during fiscal year 2004 and \$200,495 during fiscal year 2003 under this special funding and is designated as "FY01 Funding Level Adjustment."

LIGHTHOUSE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 – SUBSEQUENT EVENT

On October 13, 2004, New Life Properties, Inc., an affiliated organization of Lighthouse Youth Services, Inc. bought the school property at 6100 Desmond Avenue from the Archdiocese of Cincinnati with the intent to rent the property to Lighthouse Community School. The Lighthouse Community School Board authorized up to \$225,000 in capital renovations to the building in exchange for a reduced rental amount for the next five years.

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT 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 basic financial statements of the Lighthouse Community School, Hamilton County, Ohio (the School), as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated February 11, 2005, wherein we noted the School adopted Government Accounting Standards Board Statements 34. We conducted our audit in accordance with the 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 basic 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 February 11, 2005.

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 basic 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.

Lighthouse Community School
Hamilton County
Independent Accountants' Report on Compliance and on
Internal Control Required by Government Auditing Standards
Page 2

This report is intended for the information and use of management, The Audit 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

February 11, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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 3, 2005**