



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Management's 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 Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lighthouse Educational Development Corporation
d.b.a. Lighthouse Community School and
Professional Development Academy
Summit County
1585 Frederick Boulevard, Suite 100
Akron, Ohio 44320

To the Board of Trustees

We have audited the accompanying basic financial statements of the Lighthouse Educational Development Corporation, d.b.a. Lighthouse Community School and Professional Development Academy, Summit County, Ohio, (the School) as of and for the year ended June 30, 2004, 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 Lighthouse Educational Development Corporation, d.b.a. Lighthouse Community School and Professional Development Academy, Summit County, Ohio as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, 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 June 29, 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 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.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Management's Discussion and Analysis are not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 29, 2005

LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY

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

The discussion and analysis of Lighthouse Community School and Professional Development Academy (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004 (FY 04). The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

Total net assets increased \$24,255 in 2004.

Total revenue was \$1,491,980 in 2004.

Total program expenses were \$1,467,725 in 2004.

Total liabilities decreased \$9,112 with total assets increasing \$15,143 in 2004.

The School has no long term debt at June 30, 2004 other than a Capital lease.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. The School's financial statements are presented based upon the enterprise method of reporting under GASB. As such, the School summarizes its financial data as expected of a traditional business or corporation.

Reporting the School as a Whole

Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

The view of the School as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio that restricts revenue growth, change in technology, required educational programs and other factors.

LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY

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

Reporting the School's Financial Statements

The analysis of the School's financial statements begins on page 7. These financial statements use the accrual basis of accounting.

The School's major revenue source is the State Basic Aid Foundation. Additional sources of revenue come from federal entitlement programs and miscellaneous state grants.

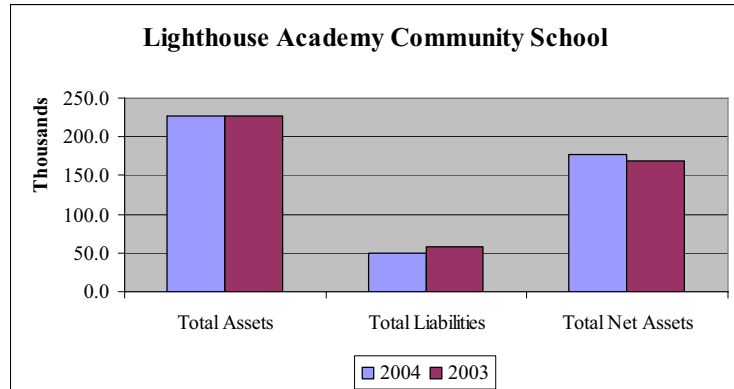
The School's activities focus on how money flows into and out of the school and the balances left at year-end available for spending in future periods. The School reports its financial data using an accounting method called *full accrual*, which measures all *financial assets*. The financial statements provide a detailed snap-shot view of the School's general government operations and the basic services it provides.

	2004	2003
<u>Assets:</u>		
Cash and Other Current Assets	\$133,061	\$134,882
Capital Assets, Net	108,871	91,907
Total Assets	241,932	226,789
<u>Liabilities:</u>		
Current Liabilities	48,782	56,320
Long Term Liabilities	586	2,160
Total Liabilities	49,368	58,480
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Debt	106,151	87,347
Unrestricted	86,413	80,962
Total Net Assets	\$192,564	\$168,309

This information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

The School as a Whole

Recall that the Statement of Net Assets provides the perspective of the School as a whole. Table 1 provides a summary of the School's net assets for 2004 compared to the prior year. The graph shows the comparative changes in net assets for fiscal years 2004 and 2003. Total net assets increased \$24,255. The primary reason for this increase is that the School booked an intergovernmental receivable from the foundation program through the Department of Education. While the School did not increase its student enrollment from fiscal year 2003 to 2004, the addition of revenue from the final Full Time Equivalent audit resulted in this significant increase. Also, the School purchased capital assets with an extended life (10 years). Finally, the school reduced its liabilities.



Cash and other current assets decreased from \$134,882 in 2003 to \$133,061 in 2004. The major reason for this decrease is the payment of previous year liabilities. After the payment of the intergovernmental receivable was received, the cash was used to pay current year activities.

LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY

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

Total Assets increased in fiscal year 2004. One of the reasons for this was that Capital Assets increased by \$16,964 from 2003 to 2004. This is due to the addition of a van and other equipment. The capitalization threshold is \$1,000 per each item.

Liabilities decreased by \$9,112. This decrease for 2004 was due to the payment of previous year liabilities and that current year revenue was greater than current year expenses. The net impact was a increase in net assets of \$24,255.

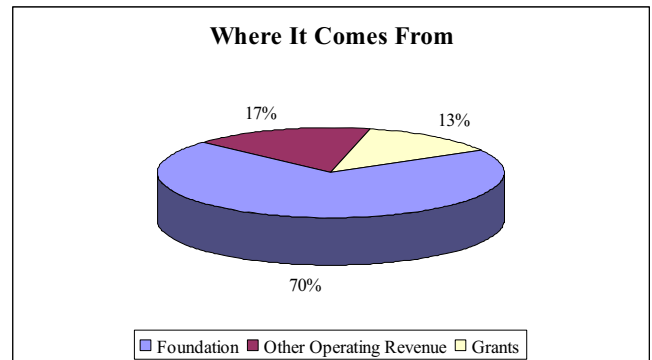
Community School Activities

The overall revenue generated by a community school is solely dependent upon student enrollment plus the per-pupil allotment given by the State foundation and from the federal entitlement programs. Thus community schools dependence upon legislative and congressional decisions on per-pupil funding hampers revenue growth. Foundation payments made up 70 percent of revenues for the School in fiscal year 2004. Grant revenues decreased substantially primarily due to loss of carryover of federal entitlement programs. Other operating revenues increased significantly due to fees charged from managing Akron Community School. Table 2 shows the total cost of services for the past 2 years. That is, it identifies the cost of these services supported by unrestricted State entitlements and restricted state and federal grants.

	2004	2003
<u>Operating Revenues</u>		
Foundation	\$1,037,679	\$934,570
Other Operating Revenue	261,763	\$22,828
<u>Non-Operating Revenues</u>		
Grants	192,256	228,562
Interest	282	-
Total Revenues	<u>1,491,980</u>	<u>1,185,960</u>
<u>Operating Expenses</u>		
Salaries	788,738	556,328
Fringe Benefits	217,557	155,453
Purchased Services	331,875	164,845
Materials and Supplies	70,903	69,582
Depreciation	17,040	12,654
Other Operating Expenses	41,052	17,140
<u>Non-Operating Expense:</u>		
Interest	560	-
Total Expenses	<u>1,467,725</u>	<u>976,002</u>
Total Increase in Net Assets	\$24,255	\$209,958

The School Budgeting Highlights

Community schools are exempt from appropriations law but are required to maintain the finances under full accrual accounting as required by Generally Accepted Accounting Principles (GAAP). This requirement is prescribed by the Ohio Department of Education through each sponsor. Accordingly, the School's budget is prepared and approved according to a ridged process required by the School Board. The Board reviews the budget monthly to stay compliant with its due diligence requirements. Budgets are revised at least once each year to reflect actual data.



The School's board reviews the financial statements of the school monthly.

LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY

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

Capital Assets and Debt Administration

Capital Assets

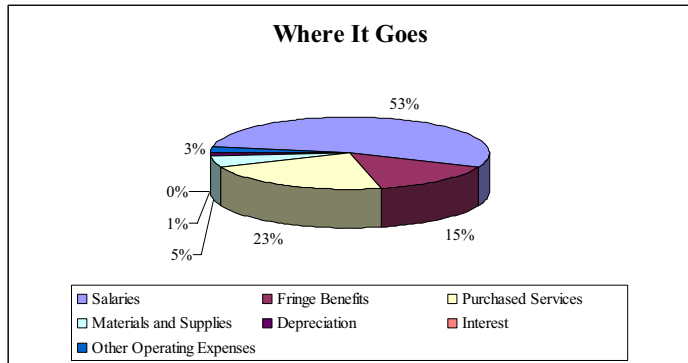
At the end of fiscal 2004, the School had \$108,871 net of depreciation invested in leasehold improvements, furniture and equipment.

Debt

At June 30, 2004 the School had \$49,368 in total liabilities. Most of this is comprised of accounts, and intergovernmental payables.

Current Financial Related Activities

Anticipated funding and budgets for the fiscal year 2004 was based on DPIA revenue guaranteed at 102% of FY 03 funding. During the spring of fiscal year 2004, the State legislature passed a budget correction bill which required community schools to be funded according to their actual DPIA enrollment. Furthermore community schools were limited to only one class (out of five classes) of poverty count indicators. In July 2004, the School received notice from ODE that a positive adjustment of \$63,940 had been determined for fiscal year 2004.



Furthermore, the school must determine its budget in June for the upcoming school year. This can represent hardship on the school if anticipated student enrollment is not achieved in the fall. Staff is hired during the spring and summer. Thus, the bulk of the expenditures for the year are set. It becomes problematic to drastically readjust staffing (either to increase or decrease) during the fall and winter. Quality teachers are difficult to find (if enrollment is higher) and terminations can be expensive (contract provisions and unemployment insurance costs).

The School must look for ways to increase its efficiency and effectiveness. As described in the previous pages, the School has limited means to increase its revenue relative to traditional school districts. Community Schools cannot seek additional funds through levies and is limited to the per pupil revenue. As such, the School must constantly monitor budgets and develop revenue models to accurately anticipate changes in funding and timing of revenue.

Contacting the School's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the School's finances and to reflect the School's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jane G. Bechtel, Director 1585 Frederick Blvd Akron, OH 44320

Lighthouse Community School and Professional Development Academy
Statement of Net Assets
June 30, 2004

Assets

Current Assets:

Cash and Cash Equivalents	\$40,755
Receivables:	
Accounts Receivable	26,410
State Foundation Receivable	63,940
Prepays	1,556
Security Deposit	<u>400</u>
 Total Current Assets	 <u>133,061</u>

Noncurrent Assets:

Capital Assets:

Depreciable Capital Assets, net	<u>108,871</u>
 Total Noncurrent Assets	 <u>108,871</u>

Total Assets	<u>241,932</u>
--------------	----------------

Liabilities

Current Liabilities:

Accounts Payable	11,514
Capital Leases-Current Due	2,134
Intergovernmental Payable	<u>35,134</u>
 Total Current Liabilities	 <u>48,782</u>

Long-Term Liabilities:

Capital Leases	586
 Total Long-Term Liabilities	 <u>586</u>

Total Liabilities	<u>49,368</u>
-------------------	---------------

Net Assets

Invested In Capital Assets, Net of Debt	106,151
Unrestricted	<u>86,413</u>
 Total Net Assets	 <u><u>\$192,564</u></u>

See accompanying notes to the financial statements

Lighthouse Community School and Professional Development Academy
Statement of Revenues,
Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

<u>Operating Revenues</u>	
State Foundation	\$1,037,679
Charges for Services	9,706
Management Fees	244,653
Other Operating Revenues	<u>7,404</u>
 Total Operating Revenues	 <u>1,299,442</u>
<u>Operating Expenses</u>	
Salaries	788,738
Fringe Benefits	217,557
Purchased Services	331,875
Materials and Supplies	70,903
Depreciation	17,040
Other	<u>41,052</u>
 Total Operating Expenses	 <u>1,467,165</u>
 Operating Loss	 <u>(167,723)</u>
<u>Non-Operating Revenues (Expenses)</u>	
Interest Income	282
Interest Expense	(560)
Operating Grants	<u>192,256</u>
 Net Non-Operating Revenues (Expenses)	 <u>191,978</u>
 Change in Net Assets	 24,255
 Net Assets Beginning of Year	 <u>168,309</u>
 Net Assets End of Year	 <u><u>\$192,564</u></u>

See accompanying notes to the financial statements

Lighthouse Community School and Professional Development Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Increase in Cash and Cash Equivalents	
<u>Cash Flows from Operating Activities</u>	
Cash Received from State	\$973,739
Cash Received from Management Fees	223,178
Other Cash Receipts	22,110
Cash Payments to Employees for Services	(818,473)
Cash Payments for Employee Benefits	(202,536)
Cash Payments for Goods and Services	(398,361)
Other Cash Payments	<u>(38,205)</u>
Net Cash Used in Operating Activities	<u>(238,548)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating Grants Received	280,500
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital Asset Purchases	(34,004)
Capital Lease Payments	<u>(2,400)</u>
Net Cash Used in Noncapital Financing Activities	<u>(36,404)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on Investments	<u>282</u>
Net Increase in Cash and Cash Equivalents	5,830
Cash and Cash Equivalents Beginning of Year	<u>34,925</u>
Cash and Cash Equivalents End of Year	<u><u>\$40,755</u></u>
 <u>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</u>	
Operating Loss	(\$167,723)
Adjustments:	
Depreciation	17,040
(Increase) Decrease in Assets:	
Intergovernmental Receivable	(63,940)
Accounts Receivable	(21,400)
Prepays	(253)
Private Grants	5,000
Increase (Decrease) in Liabilities:	
Accounts Payable	9,106
Accrued Wages	(35,249)
Intergovernmental Payable	<u>18,871</u>
Net Cash Used in Operating Activities	<u><u>(\$238,548)</u></u>

See accompanying notes to the financial statements

This page intentionally left blank.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Lighthouse Educational Development Corporation d.b.a. Lighthouse Community School and Professional Development Academy (the School) is a school as provided for by Ohio Revised Code Sections 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

As further described in Note 15 to the financial statements, the School contracted to facilitate the day-to-day operations of Akron Community School which is a legally separate community school which shares three common board members with Lighthouse Academy.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2000 through June 30, 2005. Effective May 17, 2004, this contract was assigned to the Lucas County Education Service Center. The School operates under a self-appointing five-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then-existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by four non-certified and ten certified full-time teaching personnel who provide services to 132 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

Change in Accounting Principle

For the year ended June 30, 2004, the School has implemented Governmental Accounting Standards Board (GASB) Statement No.34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Except for the addition of Management Discussion and Analysis, the implementation of GASB Statement No.34 has not had a significant impact on the Schools financial statements.

Basis of Presentation

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

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the 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 (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes.

Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process

Unlike traditional public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow provisions of Ohio Revised Code Section 5705.

Cash

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

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

Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The School does not possess any infrastructure. Leasehold improvements are also 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 capitalized.

Depreciation of leasehold improvements, computers, vehicles, furniture, equipment and materials is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of \$1,000 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers, Office Equipment and Vehicles	7
Leasehold Improvements	10
Furniture	10

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intergovernmental Revenues

The School currently participates in several State and Federal programs:

Non-Reimbursable Grants

Management Information Systems
Data Communication
SchoolNet Professional Development
Mentor/Entry Year Planning
Title I
Title II-A
Title IV
Title VI
Title VI-B
Title II-D

Reimbursable Grants

National School Lunch Program

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue 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.

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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Accrued Liabilities

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

Other Contributions/Donations

The School receives various contributions and donations which are primarily for the general operations of the School. These contributions and donations are shown as non-operating revenue on the Statement of Revenues, Expenses and Changes in Net Assets in the accounting period in which all eligibility requirements have been met.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

NOTE 3 - DEPOSITS

At year-end, the carrying amount of the School's deposits were \$40,755 and the bank balance was \$100,055. All of the bank balance except \$55 was covered by federal depository insurance.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLE

Receivables at June 30, 2004 consisted of State foundation grants. All state foundation receivables are considered collectible in full, due to the stable condition and the current year guarantee by the State of Ohio. The receivable amount of \$63,940 was determined from FTE adjustments and DPIA adjustments as recalculated by ODE

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

A summary of the School's capital assets at June 30, 2004, follows:

Leasehold Improvements	\$40,000
Vehicles	40,178
Furniture, Fixtures, & Equipment	66,531
Less Accumulated Depreciation	(37,838)
Net Capital Assets	<u>\$108,871</u>

NOTE 6 - CAPITAL LEASES

In a prior year, the School entered into a capitalized lease for a copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments (\$7,509) as of the inception date of the lease.

The following is a schedule of the future minimum lease payments as of June 30, 2004.

Year Ending June 30	Amount
2005	\$ 2,400
2006	600
Total future minimum lease payments	3,000
Less: Interest	280
Present value of future minimum lease payments	<u>\$ 2,720</u>

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 - PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

Professional Services	\$ 53,294
Property Services	38,401
Rent	113,371
Travel and Meetings	33,531
Communications	28,833
Utility Services	6,708
Contracted Services	56,188
Transportation	1,549
Total	<u>\$ 331,875</u>

NOTE 8 - RISK MANAGEMENT

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 a company for property and general liability insurance. Property coverage carries a \$2,500 deductible and has a \$1,000,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$1,000,000 in the aggregate with a \$2,500 deductible. Settled claims have not exceeded this commercial coverage, nor have there been any significant reductions in coverage in the past three fiscal years.

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

NOTE 9 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits – The School has contracted with a private carrier to provide employee medical/surgical and dental benefits. The School pays 90% of the monthly premiums and the employee is responsible for the remaining 10%. For the fiscal year 2004, the School's and the employee's premiums varied depending on insurance coverage selected, family size and the ages of those covered. The School also has a Section 125 cafeteria plan available for its employees. This is a pretax voluntary supplementary medical benefits program employee funded and employer administrated.

The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$15,000 is provided for all certified and non-certified employees.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio ("SERS"), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, 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, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The current 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 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 contribution to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$11,518, \$8,871 and \$6,492, respectively. The full amount has been contributed each year.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio ("STRS Ohio"), 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 Ohio 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 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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 the 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 or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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 10 percent of their annual covered salary and the School is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions. The School's required contribution for pension obligations to DB plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$77,365, \$56,533, and \$40,021 respectively; 63% has been contributed for fiscal year ended June 30, 2004 and 100% for fiscal years 2003 and 2002.

NOTE 11 - POST EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to 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 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. 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. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, from which payments for health care benefits are paid. For the School, this amount equaled \$5,951 during fiscal 2004. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,379,000 and STRS had 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 11 - POST EMPLOYMENT BENEFITS (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000. The school's portion of employer contributions that were used to fund Post employment benefits was \$7,346 as of June 30, 2004.

NOTE 12 - RENTAL AND SERVICE AGREEMENTS

In prior years, the School entered into a lease agreement with Kids-Play, Inc. covering the period August 16, 2001 through August 15, 2004 to use a part of their building for School operations. The lease was subsequently renewed through August 15, 2005.

The School paid Kids-Play, Inc. \$80,500 for use of these facilities during fiscal year 2004. The following is a schedule of the future minimum lease payments as of June 30, 2004.

Year Ending June 30	Amount
2005	\$10,500

Kids-Play, Inc. also provides food services for the School's students. The School paid Kids-Play, Inc. \$34,395 for this service during fiscal year 2004. This agreement remained in effect through August 15, 2004 and was renewed through August 15, 2005. The School pays Kids-Play on a per child per meal basis and is reimbursed through the National School Lunch program.

NOTE 13 - CONTINGENCIES

GRANTS – The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2004.

LITIGATION – A lawsuit 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 affect of this suit, if any, on the School is not presently determinable.

On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court.

**LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL DEVELOPMENT ACADEMY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 13 – CONTINGENCIES (Continued)

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. Based on ODE's review, \$63,940 is recorded as a receivable based upon adjustments to the DPIA program and enrollment review during fiscal year 2004. The effect of any other reviews cannot be determined.

NOTE 14 - 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.

NOTE 15 – RELATED PARTY

On August 17, 2003, three board members of the School were appointed to the Board of Trustees of the Akron Community School. The Akron Community School is a general population community school sponsored by the Ohio Department of Education. During the 2004 school year, the Akron Community School had an enrollment of 25 students. The Akron Community School Board is contracting with the School to manage its operations for the 2004 school year. All services are to be provided on a purchased service or reimbursement basis.

During the fiscal year 2004, \$244,653 of services were provided to Akron Community School and is reflected on the financial statements as Management Fees.

At June 30, 2004, \$26,410 of management fees were unpaid by Akron Community School and are reflected on the Statement of Net Assets as Accounts Receivable.

NOTE 16 – SUBSEQUENT EVENT

Akron Community Schools ceased operations at June 30, 2004 and as of the date of this report has not reopened, and no management fees have been collected by the School during the 2005 fiscal year.

This page intentionally left blank.



Auditor of State Betty Montgomery

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

Lighthouse Educational Development Corporation
d.b.a. Lighthouse Community School and
Professional Development Academy
Summit County
1585 Frederick Boulevard, Suite 100
Akron, Ohio 44320

To the Board of Directors:

We have audited the basic financial statements of the Lighthouse Educational Development Corporation, d.b.a. Lighthouse Community School and Professional Development Academy, Summit County, Ohio, (the School) as of and for the year ended June 30, 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 29, 2005, wherein we noted the School implemented Governmental Accounting Standards Board Statement No. 34. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated June 29, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

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*. In a separate letter to the School's management dated June 29, 2005, we reported a matter related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Lighthouse Educational Development Corporation
d.b.a. Lighthouse Community School and
Professional Development Academy
Summit County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for 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

June 29, 2005



**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 EDUCATIONAL DEVELOPMENT CORPORATION
D.B.A.
LIGHTHOUSE COMMUNITY SCHOOL AND PROFESSIONAL
DEVELOPMENT ACADEMY

SUMMIT COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 9, 2005**