LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION
SUMMIT COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION
SUMMIT COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lighthouse Educational Development Corporation
Summit County
1585 Frederick Boulevard, Suite 100
Akron, Ohio 44320

To the Board of Trustees:

We have audited the accompanying financial statements of Lighthouse Educational Development Corporation, Summit County, Ohio, (the School) as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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, Summit County, Ohio as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further discussed in Note 16 to the financial statements, the School has certain liabilities due to Akron Community School related to a past management agreement. However, Akron Community School is no longer in operation.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2007, 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.

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Management's Discussion and Analysis is 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 25, 2007

The discussion and analysis of Lighthouse Educational Development Corporation (Lighthouse) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006 (FY 06). The intent of this discussion and analysis is to look at Lighthouse'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 Lighthouse's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

Total net assets increased $20,573 in 2006.

Total revenue was $1,773,690 in 2006.

Total expenses were $1,753,117 in 2006.

Total liabilities decreased $60,572 with total assets decreasing $39,999 in 2006.

Lighthouse has no long term debt at June 30, 2006

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

Reporting Lighthouse as a Whole

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

The view of Lighthouse as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" 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 Lighthouse's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for Lighthouse as a whole, the *financial position* of Lighthouse has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include Lighthouse'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.

Reporting Lighthouse's Financial Statements

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

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

Lighthouse'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. Lighthouse 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 Lighthouse's general operations and the basic services it provides. 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.

Lighthouse as a Whole

Recall that the Statement of Net Assets provides the perspective of Lighthouse as a whole. Table 1 provides a summary of Lighthouse's net assets for 2006 compared to the prior year:

Table 1
Net Assets

	Business-Type Activities	
	2006	2005
ASSETS		
Current Assets	$33,294	$42,007
Capital Assets, Net of Depreciation	79,075	110,361
Total Assets	112,369	152,368
LIABILITIES:		
Current Liabilities	88,934	149,506
Total Liabilities	88,934	149,506
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	79,075	109,775
Unrestricted	(55,640)	(106,913)
Total Net Assets	$ 23,435	$ 2,862

Total net assets increased $20,573. The primary reason for this increase is that Lighthouse increased its revenue by $224,482 from 2005 to 2006. As a result, total liabilities were down $60,572 from the previous year.

Current assets decreased from $42,007 in 2005 to $33,294 in 2006. The major reason for this decrease is the payment of previous year liabilities and the intergovernmental receivable is less than the prior year's. This created more cash to pay current expenditures, thereby reducing the accounts payable balance.

Total Assets decreased from $152,368 in 2005 to $112,369 in 2006. The reason for the decrease in Total Assets is due to several capital assets being disposed, therefore reducing depreciable capital assets, net.

Liabilities decreased by $60,572. This decrease for 2006 is due primarily to current expenses being paid in a timely manner, thereby reducing accounts payable. In addition, most of the staff only worked the first half of June, reducing the accrued wages and benefits. The net impact was an increase in net assets of $20,573.

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 83 percent of revenues for Lighthouse in fiscal year 2006. Grant revenues increased primarily due to an overall increase in students from the previous year. 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:

Table 2
Changes in Net Assets for Business Type Activities

	Business-Type Activities:	
	2006	2005
Operating Revenues:		
Foundation	$1,476,361	$1,284,718
Other Operating Revenue	27,654	20,053
Non-Operating Revenues:		
Interest	946	860
Grants	268,729	243,577
Total Revenue	1,773,690	1,549,208
Operating Expenses:		
Salaries	829,809	845,468
Fringe Benefits	333,700	253,815
Purchased Service	469,471	528,172
Materials and Supplies	49,706	74,401
Depreciation	21,237	20,129
Other	13,558	15,160
Non-Operating Expenses:		
Interest Expense	7,192	1,765
Loss on Disposal of Capital Assets	28,444	0
Total Expenses	1,753,117	1,738,910
Increase (Deacrease) in Net Assets	20,573	(189,702)
Net Assets Beginning of Year	2,862	192,564
Net Assets End of Year	$23,435	$2,862

Lighthouse 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, Lighthouse's budget is prepared and approved according to a ridged process required by the Lighthouse 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.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, Lighthouse had $79,075 in capital assets net of accumulated depreciation. See Note 6 for additional information.

Liabilities

At June 30, 2006 Lighthouse had $82,656 in total liabilities. Most of this is accounts payable, intergovernmental payable, and loan payable. Lighthouse has a no long term debt at June 30, 2006.

Current Financial Related Activities

The School must look for ways to increase its efficiency and effectiveness. As described on 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 Lighthouse's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of Lighthouse's finances and to reflect Lighthouse'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 Joseph W. White Jr., President of the Board, 1585 Frederick Blvd , Suite 100, Akron, OH 44320.

Lighthouse Educational Development Corporation
Summit County, Ohio
Statement of Net Assets
June 30, 2006

Assets	
Current:	
Cash and Cash Equivalents	$25,719
Receivables:	
Accounts Receivable	410
Intergovernmental Receivable	3,453
Prepaids	3,312
Security Deposit	400
Total Current Assets	33,294
Noncurrent:	
Capital Assets:	
Capital Assets, Net of Accumulated Depreciation	79,075
Total Assets	112,369
Liabilities	
Current Liabilities:	
Accounts Payable	30,892
Accrued Wages and Benefits	5,791
Deferred Revenue	1,140
Intergovernmental Payable	27,111
Loan Payable	24,000
Total Liabilities	88,934
Net Assets	
Invested in Capital Assets	79,075
Unrestricted (Deficit)	(55,640)
Total Net Assets	$23,435

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

Lighthouse Educational Development Corporation
Summit County, Ohio
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

Operating Revenues:	
Foundation	$1,476,361
Food Service	186
Miscellaneous	27,468
Total Operating Revenues	1,504,015
Operating Expenses:	
Salaries	829,809
Fringe Benefits	333,700
Purchased Services	469,471
Materials and Supplies	49,706
Depreciation	21,237
Other	13,558
Total Operating Expenses	1,717,481
Operating (Loss)	(213,466)
Non-Operating Revenues (Expenses):	
Grants	268,729
Interest Income	946
Interest and Penalties Expense	(7,192)
Loss on Disposal of Capital Assets	(28,444)
Net Non-Operating Revenues (Expenses)	234,039
Change in Net Assets	20,573
Net Assets at Beginning of Year	2,862
Net Assets at End of Year	$23,435

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

Lighthouse Educational Development Corporation
Summit County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State Foundation	$1,476,361
Other Cash Receipts	28,833
Cash Payments to Employees for Services	(873,126)
Cash Payments for Employee Benefits	(331,533)
Cash Payments for Goods and Services	(541,775)
Other Cash Payments	(12,810)
Net Cash (Used for) Operating Activities	(254,050)
Cash Flows from Noncapital Financing Activities	
Grants Received	287,193
Other Non-Operating Cash Payments	(586)
Net Cash Provided by Noncapital Financing Activities	286,607
Cash Flows from Capital and Related Financing Activities	
Loan Proceeds - Line-of-Credit	69,000
Proceeds from sale of Capital Assets	10,500
Loan Payments - Line-of-Credit	(69,000)
Interest Expense	(7,192)
Capital Asset Purchases	(28,895)
Net Cash (Used for) Capital and Related Financing Activities	(25,587)
Cash Flows from Investing Activities	
Interest on Investments	946
Net Increase in Cash and Cash Equivalents	7,916
Cash and Cash Equivalents Beginning of Year	17,803
Cash and Cash Equivalents End of Year	$25,719

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

Lighthouse Educational Development Corporation
Summit County, Ohio
Statement of Cash Flows - Continued
For the Fiscal Year Ended June 30, 2006

Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities

Operating (Loss)	($213,466)
Adjustments:	
Depreciation	21,237
(Increase) Decrease in Assets:	
Accounts Receivable	279
Prepaids	(2,114)
Increase (Decrease) in Liabilities:	
Accounts Payable	(21,004)
Accrued Wages	(43,317)
Deferred Revenue	900
Intergovernmental Payable	3,435
Net Cash (Used in) Operating Activities	($254,050)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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. 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.

The School was approved for operation under contract with the Lucas County Education Service Center (Sponsor) for a period of two years commencing with fiscal year July 1, 2004 through June 30, 2006. On May 16, 2006, the School signed an agreement with the Richland Academy of Arts to sponsor the School for a five year period beginning on July 1, 2006. 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 two instructional/support facilities staffed by six non-certified and sixteen certified full-time teaching personnel who provide services to 205 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.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, except for Section 5705.391 as it relates to five-year forecasts.

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 and equipment 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

Intergovernmental Revenues

The School currently participates in several State and Federal programs:

<u>Non-Reimbursable Grants</u>
Management Information Systems
Drug Free Schools
School Net Professional Development
Special Education Access
Title I
Title II-A
Title V
Title VI-B
Title II-D
<u>Reimbursable Grants</u>
National School Lunch Program

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2006, 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 wages and benefits due but unpaid, are reported as liabilities in the accompanying financial statements.

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 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2006, the School has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. The School also implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" which establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. In addition, the School implemented GASB Statement No. 47, "Accounting for Termination Benefits" which establishes standards of accounting and financial reporting for termination benefits. The implementation of each of these new principles did not have any effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At year-end, the carrying amount of the School's deposits was $25,719 and the bank balance was $33,537. All of the bank balance is covered by federal depository insurance.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE

All 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 $3,453 was determined from claims submitted by the school to the Ohio Department of Education.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

A summary of the School's capital assets at June 30, 2006, follows:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land & Improvements	$0	$1,790	$0	$1,790
Total Capital Assets, Not Being Depreciated	0	1,790	0	1,790
Capital Assets, Being Depreciated:				
Leasehold Improvements	40,000	16,089	(40,000)	16,089
Vehicles	40,178	0	(20,178)	20,000
Fixtures and Equipment	88,151	11,016	0	99,167
Total Capital Assets, Being Depreciated	168,329	27,105	(60,178)	135,256
Less Accumulated Depreciation:				
Leasehold Improvements	(10,800)	(4,332)	14,100	(1,032)
Vehicles	(15,038)	(4,517)	7,134	(12,421)
Fixtures and Equipment	(32,130)	(12,388)	0	(44,518)
Total Accumulated Depreciation	(57,968)	(21,237)	21,234	(57,971)
Total Capital Assets, Being Depreciated, net	110,361	5,868	(38,944)	77,285
Total Business-type Activities Capital Assets, net	$110,361	$7,658	($38,944)	$79,075

NOTE - 7 PURCHASED SERVICES

For the period July 1, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows:

Professional Services	$ 103,973
Property Services	37,391
Rent	180,013
Travel and Meetings	18,733
Communications	31,925
Utility Services	21,598
Contracted Services	70,225
Transportation	5,613
Total	$ 469,471

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 2006, 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 Workers' 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 Workers' 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 2006, 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.

NOTE 10 - RETIREMENT PLANS

School Employees Retirement System - The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853 or by visiting the SERS' website, www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were $6,962, $11,518, and $8,871, respectively; 95.7 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

State Teachers Retirement System - 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 web site at www.strsoh.org.

NOTE 10 - RETIREMENT PLANS (continued)

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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were $99,321, $99,034, and $77,365, respectively; 99.4 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Member and employee contributions to the DC and Combined Plans will be provided upon written request.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security.

NOTE 11 - OTHER 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 partial 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.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School this amount equaled $7,640 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.
For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $2,257.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

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 June 15, 2006. The School paid Kids-Play, Inc. $82,800 for use of these facilities during fiscal year 2006.

Kids-Play, Inc. also provides food services for the School's students. The School paid Kids-Play, Inc. $30,945 for this service during fiscal year 2006. This agreement remained in effect through August 15, 2004 and was renewed through June 15, 2006. The School pays Kids-Play on a per child per meal basis and is reimbursed through the National School Lunch program.

The School will be consolidating its operations for the 2007 fiscal year to one building. The rental and food service contract with Kids-Play, Inc. was not renewed.

NOTE 13 – LINE OF CREDIT

During the year, the School had a revolving bank line-of-credit. The School borrowed and repaid a total of $69,000 from this account, and paid interest expense of $4,078. There was no outstanding liability for the line-of-credit at June 30, 2006.

NOTE 14 - 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, 2006.

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.

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, $17,776 is recorded as a payable based upon adjustments to the DPIA program and enrollment review during fiscal year 2006. The effect of any other reviews cannot be determined.

NOTE 15 - 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 16 – AKRON COMMUNITY SCHOOL

On August 22, 2004, the School contracted with Akron Community School (ACS) to facilitate day-to-day operations of ACS. This includes adopting the educational curriculum, providing teaching, developing and maintain state mandated testing and requirements, and completing all required administrative reports. As of June 30, 2005, the Akron Community School is no longer in operation.

During fiscal year 2005, a $25,000 cash loan was given by ACS to Lighthouse Academy of which $24,000 remains outstanding at June 30, 2006 and is reflected on the Statement of Net Assets as "Loan Payable". There is no written agreement specifying an interest rate or repayment requirements for this loan.

Also, during 2005 Akron Community School paid certain expenses totaling $548 which should have been paid by Lighthouse Academy in accordance with the management agreement. In addition, the State FTE review resulted in an additional $10,000 of Foundation Revenue overpayments to Akron Community School from past fiscal years. Since Akron Community School paid this revenue to Lighthouse Academy as a management fee, this revenue is due back ACS. These amounts are reflected on the Statement of Net Assets as a accounts payable.

NOTE 16 – AKRON COMMUNITY SCHOOL (Continued)

The School also had an accounts receivable of $410 due from ACS from the prior fiscal year that remains unpaid at June 30, 2006.

Summary of amounts due to and due from ACS at June 30, 2006:

	June 30, 2006
Accounts Receivable	$(410)
Accounts Payable	10,548
Loan Payable	24,000
Nets Amount Due to Akron Community School	$34,138

NOTE 17 – SUBSEQUENT EVENTS

In an effort to reduce operating costs, for the 2007 fiscal year, the School closed its downtown campus and consolidated its operations to it west campus. They have also discontinued their sixth through eighth grade classes and reduced staff for the 2007 fiscal year.

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

Lighthouse Educational Development Corporation
Summit County
1585 Frederick Boulevard, Suite 100
Akron, Ohio 44320

To the Board of Trustees:

We have audited the financial statements of Lighthouse Educational Development Corporation, Summit County, Ohio, (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 25, 2007. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2006-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the School's management dated May 25, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 May 25, 2007, we reported other matters related to noncompliance we deemed immaterial.

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 25, 2007

LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION
SUMMIT COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2006

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2006-001

Reportable Condition

Akron Community Schools – Assets and Liabilities

As disclosed in Note 16 to the Financial Statements the School owes a net amount of $34,138 to Akron Community School a former community school. In addition, the School assumed use of certain assets (computers, furniture and equipment) with an acquisition cost of $13,061 (fully depreciated) from Akron Community School when it ceased operating. These assets were not formally purchased from Akron Community School and permission to retain these assets was not obtained from the Ohio Department of Education upon Akron Community School's closure.

The School should make arrangements with the Ohio Department of Education to settle the liability due to Akron Community School and formally acquire the Akron Community School residual capital assets.

This matter will be referred to the Ohio Department of Education

Officials' Response: We are aware of our obligation. Early this fall we intend to contact the Ohio Department of Education to settle the liability due to Akron Community School and formally acquire the Akron Community School residual capital assets.

LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION
SUMMIT COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Accounting control deficiencies - weak record maintenance and voucher documentation practices for non-payroll and payroll expenditures	No	Partially corrected. Comment repeated in Management Letter
2005-002	Ohio Rev. Code Section 5705.391 and 3314.03(A)(11)(d), the School did not prepare and submit five year revenue and expense projections to the Ohio Department of Education.	Yes	Finding no longer valid.

Mary Taylor, CPA
Auditor of State

LIGHTHOUSE EDUCATIONAL DEVELOPMENT CORPORATION

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 16, 2007

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