VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
CUYAHOGA COUNTY
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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Villaview Lighthouse Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2007, 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Villaview Lighthouse Community School, Cuyahoga County, Ohio, as of June 30, 2007, and changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2007, the School suffered an operating loss in the amount of $391,856, and a net loss of $203,456. Management's plan in regard to these matters is described in Note XII.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008, 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 accounting principles generally accepted in the United States of America 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

October 24, 2008

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The discussion and analysis of Villaview Lighthouse Community School's *(formerly known as Cleveland Lighthouse Charter Community School – West)*, (VLCS), *financial* performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2007. 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 Financial Statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

Key financial highlights for 2007 include the following:

- VLCS has a deficit net assets totaling ($203,456) after its first year of operations. The school's pilot year in FY 2007 had 64 students. The small size, in part, contributed to the first year loss. The first year loss was financed in part through a low interest, start up loan from Lighthouse Academies, Inc. in the amount of $230,000. Starting in fiscal year 2008, the financial position of the school should improve with VLCS benefiting from recently amended Ohio HB No.119, section 3314.091(B) which will provide VLCS with much needed funding for the cost of transportation of its students. The majority of the students are from the Cleveland Municipal School District, a district that has not provided bus services to all community schools. The amended Ohio Revised Code Section 3314.091(B) provides that the department of education will reimburse the community school for eligible students. The exact amount of reimbursement has not been published.
- In fiscal year 2008, VLCS moved to its permanent facility in Cleveland located at 19114 Bella Drive. The facility will accommodate 520 students. The facility is leased under a 10 year operating lease from Charter School Development Corporation.
- Operating expense totaled $844,857. VLCS shared costs, including personnel, facility, and purchased services with Cleveland Lighthouse Community School (CLCS). CLCS and VLCS have common board of directors. VLCS paid $573,814 to CLCS in fiscal year 2007.
- Non-operating revenues of $188,400 were mostly federal awards including the Public Charter School Startup Program (PCSP) for $150,000 and Title I for $30,506. The PCSP grant of $150,000 was used to finance start up costs including furniture and textbooks.

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets looks at how well VLCS has performed financially from inception through June 30, 2007. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

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

	2007
Assets	
Cash	$42,443
Other Current Assets	3,383
Security Deposits	35,000
Total Assets	80,826
Liabilities	
Current Liabilities	54,282
Startup loan – LHA	230,000
Total Liabilities	284,282
Net Assets (Deficit)	(203,456)

Statement of Revenues, Expenses and Changes in Net Assets

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

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

	2007
Revenues	
Operating Revenue:	
Foundation and Assistance Revenues	$ 452,774
Other Operating Revenues	227
Total Operating Revenues	453,001
Non-operating Revenue	
Federal and State Grants	188,400
Total Non-operating Revenues	188,400
Total Revenues	641,401
Expenses	
Purchased Services	726,913
Materials and Supplies	113,713
Interest Expense	1,006
Other Operating Expenses	3,225
Total Liabilities	844,857
Net Loss	$(203,456)

Sources of deficit financing	
Startup loan with Lighthouse Academies, Inc (LHA)	$230,000
Amounts financed by LHA	$230,000

Current Financial Issues

Villaview Lighthouse Community School opened in the fall of 2006. In its initial year of operation it had 64 students, five teaching staff members and expenses of $844,857 and experienced a deficit of ($203,456). Starting with fiscal year 2008, with higher enrollment, increased funding and recent changes to transportation laws for community schools, the school expects to maximize its revenue and have a balanced budget. As the school matures to full enrollment its staff will strive to maintain the high level of services currently offered, will provide a strong educational product to the students and families and will develop a reputation for quality education.

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement Of Net Assets
As of June 30, 2007

Assets:	
Current Assets:	
Cash	$42,443
Due from Other Governments	2,383
Accounts Receivable	1,000
Total Current Assets	45,826
Non-Current Assets:	
Security Deposit	35,000
Total Non-Current Assets	35,000
Total Assets	80,826
Liabilities:	
Current Liabilities:	
Accounts Payable	35,675
Accrued Expenses	18,607
Loan Payable	76,667
Total Current Liabilities	130,949
Long Term Liabilities:	
Loans Payable	153,333
Total Long Term Liabilities	153,333
Total Liabilities	284,282
Net Assets:	
Unrestricted	(203,456)
Total Net Assets	$(203,456)

See Accompanying Notes to the Basic Financial Statements

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement Of Revenues, Expenses And Changes In Net Assets For The Fiscal Year Ended June 30, 2007

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$452,774
Other Operating Revenues	227
Total Operating Revenues	453,001
Operating Expenses:	
Purchased Services	726,913
Materials and Supplies	113,713
Interest Expense	1,006
Other Operating Expenses	3,225
Total Operating Expenses	844,857
Operating Loss	(391,856)
Non-Operating Revenues:	
Federal and State Grants	188,400
Total Non-Operating Revenues	188,400
Net Loss	(203,456)
Net Assets at Beginning of Year	0
Net Assets at End of Year	($203,456)

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

Statement of Cash Flows
For The Fiscal Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	$ 455,161
Cash received from other operating revenue	227
Cash paid to employees and vendors for goods and services	(828,962)
Net cash used for operating activities	(373,574)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	180,461
State grants received	5,556
Loan from Lighthouse Academies Inc.	230,000
Net cash provided by noncapital financing activities	416,017
NET INCREASE IN CASH	42,443
CASH - Beginning of year	-
CASH - End of year	$ 42,443
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITES:	
Operating Loss:	$ (391,856)
Change in Assets and Liabilities---	
Increase in Accounts Receivable	(1,000)
Increase in Security Deposit	(35,000)
Increase in Accounts Payable	35,675
Increase in Accrued Expenses	18,607
NET CASH USED FOR OPERATING ACTIVITIES	$ (373,574)

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I. Description of the School and Reporting Entity

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

In 2007, VLCS legally changed its name from Cleveland Lighthouse Charter Community School – West to Villaview Lighthouse Community School.

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

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

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

II. Summary of Significant Accounting Policies

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

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. VLCS prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which VLCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements

II. Summary of Significant Accounting Policies (continued)

2. Measurement Focus and Basis of Accounting (continued)

have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which VLCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to VLCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

All monies received by VLCS are deposited in demand deposit accounts. Total cash for VLCS is presented as "Cash" on the accompanying Statement of Net Assets. Cash as of June 30, 2007 represents bank deposits which are covered by federal depository insurance.

4. Budgetary Process

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

5. Due from Other Governments

Due from Other Governments as of June 30, 2007, consisted of the following Federal Grants:

Due from Other Governments	Amount
Title I	$ 2,383
Total Federal Grants Due from Other Governments	$ 2,383

II. Summary of Significant Accounting Policies (continued)

6. Security Deposit

In 2007, the school entered into a facility lease agreement for a new site to use in FY 08. As part of this agreement the school paid a $35,000 deposit in June of 2007. This deposit was used for unpaid rent. See footnote XIV for further explanation.

7. Net Assets

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

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

8. Intergovernmental Revenues

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

II. Summary of Significant Accounting Policies (continued)

8. Intergovernmental Revenues (continued)

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

Intergovernmental Revenues	Amount
State Foundation and Poverty Based Assistance	$ 452,774
State Startup Grant	3,000
Local Grant	2,555
PCSP Program	150,000
Title I	30,506
Title II(a)	1,834
Title II(d)	505
Total Intergovernmental Revenues	$ 641,174

9. Compensated Balances

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

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

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that

II. Summary of Significant Accounting Policies (continued)

10. Use of Estimates (continued)

affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

III. Deposits

At fiscal year end June 30, 2007, the carrying amount of VLCS's deposits totaled $42,443 and its bank balance was $72,827. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

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

IV. Purchased Services

Purchased Services include the following:

Instruction	$272,294
Administrative	190,525
Staff development	28,479
Pupil Support Services	29,762
Occupancy Costs	78,032

IV. Purchased Services (continued)

Transportation	92,266
Food Services	35,555
Total	$726,913

V. Operating Leases

VLCS leases its facilities at Reserve Square, 1701 East 12th St, Cleveland from Cleveland Lighthouse Community School (CLCS) under a one year lease agreement effective July 1, 2006 and expiring June 30, 2007. During fiscal year 2007 rents totaled $39,432.

VI. Risk Management

1. Property and Liability Insurance

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

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

2. Workers' Compensation

VLCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2007 there have been no claims filed by VLCS employees with the Ohio Worker's Compensation System.

VII. Defined Benefit Pension Plans

1. 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

VII. Defined Benefit Pension Plans (continued)

1. School Employees Retirement System (continued)

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 43215-3476.

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 2007, 10.68 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, 2007 was $530; 100 percent has been contributed for fiscal year 2007.

2. 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 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 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

VII. Defined Benefit Pension Plans (continued)

2. State Teachers Retirement System (continued)

contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, 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 2006, 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 year ended June 30, 2007 was $0. They paid 100%.

VIII. Post-Employment Benefits

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

VIII. Post-Employment Benefits (continued)

authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

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 cost 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $0 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was $4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were $265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, 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 2007 fiscal year equaled $165.

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 year. Expenses for health care at June 30, 2006, (the latest information available), were $158,751,207. At June 30, 2006,

VIII. Post-Employment Benefits (continued)

SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

IX. Contingencies

1. Grants

VLCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of VLCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of VLCS at June 30, 2007.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report there were no adjustments to the state funding received during fiscal year 2007.

X. Sponsorship and Management Agreement

VLCS entered into an agreement with ASHE Culture Center, Inc. to provide sponsorship and oversight services as required by law. Sponsorship fees are calculated as 3% of state funds received by VLCS, from the State of Ohio. The total amount due from VLCS for fiscal year 2007 was $13,583 all of which was paid prior to June 30, 2007.

VLCS entered into an agreement with Lighthouse Academies, Inc., a nonprofit organization, (LHA) to provide educational and operational management, legal, financial, and business management services for the fiscal year 2007. The agreement is for a five period with renewal if the charter renews. Management fees are calculated as 7.5% of the school's revenues, excluding money for the food program. This fee is subordinated to the landlord's lease payments and payable after the school year. For the year ended June 30, 2007 management fees totaled $47,909 and $37,757 has been paid.

XI. Related Parties

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

XII. Management Plan

For fiscal year 2007, the School had a net loss of $203,456. The School had an unaudited net loss of $285,894 for fiscal year 2007. The School has new leadership which plans to encourage community involvement in order to increase student enrollment. The School reported enrollment of 63 for the fiscal year ended June 30, 2007 and 232 for the year ended June 30, 2008. Starting in FY09, the School leased two buses in August 2008 to provide some of their own transportation services in order to lower transportation costs.

XIII. Debt Obligations

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07	Amount Due within Year
Loan Payable	$ -	$ 230,000	$ -	$ 230,000	$ 76,667
Total	$ -	$ 230,000	$ -	$ 230,000	$ 76,667

The Loan Payable for $230,000 is a startup loan in the form of a promissory note payable to Lighthouse Academies, Inc. (LHA), which is the School's management firm, and is payable in 36 months beginning on July 1, 2007.

XIV. Subsequent Events

In 2007, the school entered into a facility lease agreement for a new site at Bella Drive in Cleveland Ohio for which the school operated in fiscal year ending June 30, 2008. The school experienced under-enrollment and entered into a verbal agreement to defer paying its rent for FY08 with the intent to purchase the building at the end of 2008 including making up any unpaid rent. Prior to the year ending June 30, 2008 and before any written agreement was entered into, the school received a notice of default on its lease and vacated the premises at the end of the school year ending June 30, 2008. The amount of unpaid rent for fiscal year June 30, 2008 was $280,000 after putting the $35,000 security deposit toward the unpaid rent. No legal action is expected to be taken by the owner of the building against the school. The school is currently conducting operations at a new location for fiscal year 2009.

Mary Taylor, CPA
Auditor of State

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

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

To the Board of Directors:

We have audited the basic financial statements of Villaview Lighthouse Community School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 24, 2008, wherein we noted the School suffered an operating loss in the amount of $391,856 and a net loss in the amount of $203,456. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

We noted certain matters that we reported to the School's management in a separate letter dated October 24, 2008.

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Compliance and Other Matters

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 24, 2008

Mary Taylor, CPA
Auditor of State

VILLAVIEW LIGHTHOUSE COMMUNITY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 24, 2008