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**LIGHTHOUSE COMMUNITY SCHOOL**

Basic Financial Statements

Year ended June 30, 2014

With Independent Auditors' Report





# Dave Yost • Auditor of State

Board of Directors  
Lighthouse Community School  
401 E. McMillan Street  
Cincinnati, Ohio 45206

We have reviewed the *Independent Auditors' Report* of the Lighthouse Community School, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lighthouse Community School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 2, 2014

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## TABLE OF CONTENTS

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 6
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9 – 10
Notes to the Basic Financial Statements	11 – 22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23 – 24

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Lighthouse Community School:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Lighthouse Community School (the School), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Managements' Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lighthouse Community School as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
October 31, 2014

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)

The discussion and analysis of the Lighthouse Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

**Financial Highlights**

- Total net position of the School increased \$9,953 during the fiscal year. Ending net position of the School was \$520,392 compared with \$510,439 at June 30, 2013.
- Total assets decreased \$8,349 from the prior year and total liabilities decreased by \$18,302 during this same 12 month period.
- The School's operating loss for fiscal year 2014 was \$330,520 compared with an operating loss of \$446,720 reported for the prior year.
- Total revenues increased by \$130,218 while total expenses decreased by \$22,425 over those reported for the prior year.

**Using this Financial Report**

*Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows*

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during the fiscal year?" The statement of net position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net position; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)

The statement of revenues, expenses and changes in net position reports the changes in net position. This change in net position 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.

The Statement of Cash Flows provides information about how the School is meeting the cash flow needs of its operations.

**Financial Analysis**

Table 1 provides a summary of the School's net position for fiscal year 2014 and fiscal year 2013:

**Table 1  
Net Position at Year End**

	<u>2014</u>	<u>2013</u>
Assets:		
Current Assets	\$ 568,127	\$ 555,192
Capital Assets, Net	<u>49,557</u>	<u>70,841</u>
Total Assets	<u>617,684</u>	<u>626,033</u>
Liabilities		
Current Liabilities	<u>97,292</u>	<u>115,594</u>
Total Liabilities	<u>97,292</u>	<u>115,594</u>
Net Position:		
Net Investment in Capital Assets	49,557	70,841
Unrestricted	<u>470,835</u>	<u>439,598</u>
Total Net Position	<u>\$ 520,392</u>	<u>\$ 510,439</u>

Capital Assets decreased significantly in comparison with the prior fiscal year. This decrease represents the amount in which current year depreciation expense exceeded current year additions.

Total Liabilities decreased significantly in comparison with the prior fiscal year. This decrease is due to excess foundation payments received in fiscal years 2013 and prior being returned to the Ohio Department of Education in fiscal year 2014.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)

Table 2 shows the changes in net position for fiscal years 2014 and 2013, as well as a listing of revenues and expenses.

**Table 2  
Changes in Net Position**

	2014	2013
Operating Revenues:		
Foundation Payments	\$ 342,000	\$ 335,349
Special Education	354,415	304,369
Severe Behavioral Handicap	141,034	131,357
Economic Disadvantages	36,528	-
Other	12,308	21,435
Non-Operating Revenues:		
Federal and State Grants	95,909	122,351
Cincinnati Public School	120,000	120,000
Investment Earnings	73,779	50,037
Contributions and Donations	50,785	11,642
Total Revenues	1,226,758	1,096,540
Operating Expenses		
Salaries	565,031	529,701
Fringe Benefits	153,861	146,130
Purchased Services	406,916	325,791
Materials and Supplies	47,993	81,477
Depreciation	31,026	32,987
Other Expenses	11,978	123,144
Total Expenses	1,216,805	1,239,230
Change in Net Position	9,953	(142,690)
Net Position, Beginning of Year	510,439	653,129
Net Position, End of Year	\$ 520,392	\$ 510,439

Operating Revenues increased significantly in comparison with the prior fiscal year primarily as a result of increases in special education and economic disadvantaged funding.

Total Expenses decreased slightly in comparison with the prior fiscal year.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)

**Capital Assets (Net of Depreciation)**

At the end of fiscal year 2014, the School had \$49,557 in Capital Assets, Net. For more information, see Note 6 to the basic financial statements.

**Current Financial Issues**

The Lighthouse Community School was formed in 2000. During the 2013-2014 school year, there was an average of 60 students enrolled in the School. The School receives its finances mostly from state aide.

For Fiscal year 2014, enrollment increased from 55.04 FTE's (FY2013) to 59.53 FTE's (FY2014).

Funding for the school is a challenge, as keeping the enrollment up can be difficult. State funding falls short of being able to maintain the operations of the school without other sources of funding, mainly private contributions. To date, the school has had many financial supporters and has excellent community support. The dedicated staff and volunteers continue to make a difference in the lives of the students. The school also has an excellent financial position that will help to sustain the operations.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Judith A. Oakman, Chief Financial Officer of Lighthouse Youth Services, 401 E. McMillan St., Cincinnati, Ohio 45206 or e-mail at [joakman@lys.org](mailto:joakman@lys.org).

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

STATEMENT OF NET POSITION  
AS OF JUNE 30, 2014

**Assets:**

Current Assets	
Cash and Cash Equivalents	\$ 100,128
Investments	392,296
Accounts Receivable	350
Intergovernmental Receivable	<u>75,353</u>
Total Current Assets	<u>568,127</u>
Noncurrent Assets	
Capital Assets, Net	<u>49,557</u>
Total Noncurrent Assets	<u>49,557</u>
Total Assets	<u><u>617,684</u></u>

**Liabilities:**

Current Liabilities	
Accounts Payable	33,133
Accrued Wages and Benefits Payable	49,324
Intergovernmental Payable	<u>14,835</u>
Total Current Liabilities	<u>97,292</u>

**Net Position:**

Net Investment in Capital Assets	49,557
Unrestricted	<u>470,835</u>
Total Net Position	<u><u>\$ 520,392</u></u>

See accompanying notes to the basic financial statements.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<b>Operating Revenues:</b>	
Foundation Payments	\$ 342,000
Special Education	354,415
Severe Behavioral Handicap	141,034
Economic Disadvantaged	36,528
Other	12,308
Total Operating Revenues	<u>886,285</u>
 <b>Operating Expenses:</b>	
Salaries	565,031
Fringe Benefits	153,861
Purchased Services	406,916
Materials and Supplies	47,993
Depreciation	31,026
Other	11,978
Total Operating Expenses	<u>1,216,805</u>
 Operating Loss	 <u>(330,520)</u>
 <b>Non-Operating Revenues (Expenses):</b>	
Federal and State Grants	95,909
Cincinnati Public School	120,000
Contributions and Donations	50,785
Investment Earnings	73,779
Total Non-Operating Revenues (Expenses)	<u>340,473</u>
 Change in Net Position	 9,953
 Net Position Beginning of Year	 <u>510,439</u>
Net Position End of Year	<u><u>\$ 520,392</u></u>

See accompanying notes to the basic financial statements.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Cash Flows from Operating Activities:	
Received from Foundation Payments	\$ 342,000
Received from Disadvantaged Pupil Impact Aid	531,977
Received from Extracurricular Activities	26,251
Payments to Suppliers for Goods and Services	(444,612)
Payments to Employees for Services and Benefits	(689,538)
Payments to Other	<u>(63,808)</u>
<b>Net Cash Used for Operating Activities</b>	<b><u>(297,730)</u></b>
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	94,816
Received from Cincinnati Public School	90,000
Received from Contributions and Donations	<u>50,785</u>
<b>Net Cash from Noncapital Financing Activities</b>	<b><u>235,601</u></b>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	<u>(9,742)</u>
<b>Net Cash Used for Capital and Related Financing Activities</b>	<b><u>(9,742)</u></b>
Cash Flows from Investing Activities:	
Received from Interest	13,052
Received from Sales	<u>100,000</u>
<b>Net Cash from Investing Activities</b>	<b><u>113,052</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>41,181</b>
Cash and Cash Equivalents at Beginning of Year	<u>58,947</u>
Cash and Cash Equivalents at End of Year	<b><u>\$ 100,128</u></b>

See accompanying notes to the basic financial statements.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Reconciliation of Operating Loss to Net Cash  
Used for Operating Activities:

Operating Loss	\$ (330,520)
Adjustments to Reconcile Operating Loss to Net	
Cash Used for Operating Activities:	
Depreciation	31,026
Changes in Assets and Liabilities:	
Accounts Receivable	1,683
Intergovernmental Receivable	17,217
Prepaid Items	1,166
Accounts Payable	10,788
Accrued Wages and Benefits Payable	20,919
Intergovernmental Payable	(50,009)
<b>Net Cash Used for Operating Activities</b>	<b><u>\$ (297,730)</u></b>

See accompanying notes to the basic financial statements.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Lighthouse Community School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades six through twelve. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Lighthouse Community School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Cincinnati Public School District, Hamilton County (the Sponsor) commencing July 1, 2000. In May of 2014, the contract was renewed through August of 2017. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 12).

The School operates under the direction of an eleven-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 4 non-certified and 10 certificated full time teaching personnel who provide services to approximately 50-65 students.

**NOTE 2 – RELATED ORGANIZATION**

Seven Board members of the Lighthouse Community School are also Board members of Lighthouse Youth Services, Inc. Lighthouse Community School contracts with Lighthouse Youth Services, Inc. for various management services, including:

1. Utilization of operations and policy manuals, forms, and management procedures;
2. Assistance in identifying and applying for grants;
3. Financial management;
4. Administrative staff supervision;
5. Human Resource assistance with hiring and benefits management, and
6. Such other management consultant services as are from to time mutually agreed upon.

Lighthouse Community School paid Lighthouse Youth Services, Inc. \$99,000 for the management services noted above.

In October 2004, New Life Properties, Inc. an affiliated organization bought the school building on Desmond Avenue. An annual lease is signed between the two parties, in which the School pays annual rent of \$46,725 and assumes utility and maintenance costs of the building.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lighthouse Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

**B. Measurement Focus**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture, Fixtures, and Equipment	3 – 5 years
Computers	3 years
Leasehold Improvements	10 years

**F. Compensated Absences**

Vacation leave benefits are carried forward to future fiscal years, but sick leave benefits are not. The School does not pay sick leave benefits upon termination or retirement.

**G. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. The School has no deferred outflows of resources, deferred inflows of resources or debt at fiscal year-end.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**I. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 4 – DEPOSITS**

At fiscal year end, the carrying amount of the School’s deposits was \$100,128, and the bank balance was \$134,716. The entire bank balance is covered by federal depository insurance.

The School’s investments at June 30 consisted of mutual funds invested with Morgan Stanley, valued at their fair value of \$392,296. The School has no interest bearing investments.

The School’s investments are protected by the Securities Investor Protector Corporation (SIPC) against losses caused by the financial failure of the broker-dealer. SIPC was created by the Securities Investor Protections Act of 1970 and is neither a government or a regulatory authority, but a nonprofit, membership corporation, funded by its member securities broker-dealers. Customers of a failed firm receive all securities registered in their names or in the process of being so registered. Customers receive, on a pro rata basis, all remaining customer cash and securities held by the firm.

After the above distribution, SIPC funds are available to satisfy the remaining claims of each customer, up to a maximum of \$500,000, including up to \$100,000 on claims for cash (as a distinction from claims for securities). Any remaining assets after payment of liquidation expenses may be available to satisfy any remaining portion of customer claims on a pro rata basis with other creditors.

**NOTE 5 – RECEIVABLES**

Receivables at June 30, 2014, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full. A summary of intergovernmental receivables follows:

<b><u>Funding Source</u></b>	<b><u>Amount</u></b>
Cincinnati Public School	\$ 60,000
Federal Grants:	
IDEA-B	3,969
Title I	9,649
Title II-A	400
Other Federal Grants	<u>1,335</u>
Total Intergovernmental Receivables:	<u><u>\$ 75,353</u></u>

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated				
Leasehold Improvements	\$ 298,899	\$ -	\$ -	\$ 298,899
Furniture, Fixtures, and Equipment	26,476	9,742	-	36,218
	<u>325,375</u>	<u>9,742</u>	<u>-</u>	<u>335,117</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(228,058)	(29,890)	-	(257,948)
Furniture, Fixtures, and Equipment	(26,476)	(1,136)	-	(27,612)
	<u>(254,534)</u>	<u>(31,026)</u>	<u>-</u>	<u>(285,560)</u>
 Capital Assets, Net	 <u>\$ 70,841</u>	 <u>\$ (21,284)</u>	 <u>\$ -</u>	 <u>\$ 49,557</u>

**NOTE 7 – RISK MANAGEMENT**

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 2014, the School contracted with Philadelphia Insurance Company for general liability and property insurance and Philadelphia Insurance Company for educational errors and omissions insurance.

Coverages are as follows:

Building and Contents (\$5,000 deductible)	\$ 1,150,000
Business Personal Property (\$5,000 deductible)	100,000
Educational Errors and Omissions	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

There has been no significant change in insurance coverage from last year. Settled claims have not exceeded commercial coverage in either of the past three years.

**Worker's Compensation**

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

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 8 – DEFINED BENEFIT PENSION PLANS**

**a. School Employees Retirement Pension**

Plan Description – 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 can be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS’ Retirement Board. The Retirement Board acting with the advice of the actuary, allocated the current employer contribution rate among the four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10%. The remaining 0.90% of the 14% employer contribution rate was allocated to the Health Care and Medicare B Funds. The School’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$8,341, \$12,718, and \$9,108, respectively. The entire amount has been contributed for fiscal years 2012 and 2013. For fiscal year 2014, the School has contributed 83% of the required amount. The unpaid contribution has been recorded as a liability.

**b. State Teachers Retirement System of Ohio**

Plan Description – The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a state-wide, cost sharing, multiple-employer public employee retirement system for licensed teachers and other faculty members employed by the School District. STRS Ohio 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 issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

Plan Options – New members have a choice of three retirement plans. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan, and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)**

DB Plan Benefits – DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” allocation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchase credit) time the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service credit over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final years will be calculated at 2.5% instead of 2.2%.

Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Under the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination or reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs, and partial reimbursements of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 8 – 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 spouse and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage of up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy – Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 10% of covered payroll for members and 14% for employers. The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012, were \$51,255, \$61,190, and \$62,513, respectively. The entire amount has been contributed for fiscal years 2012 and 2013. For fiscal year 2014, the School has contributed 92% of the required amount. The unpaid contribution has been recorded as a liability.

**NOTE 9 – POSTEMPLOYMENT BENEFITS**

**a. School Employees Retirement Pension**

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two cost-sharing, multiple employer postemployment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part b premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement for SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocated a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required was .76%. The School District contributions for the year ended June 30, 2014, 2013, and 2012 were \$471, \$553, and \$692, respectively. The entire amount has been contributed for fiscal years 2012 and 2013. For fiscal year 2014, the School has contributed 83% of the required amount. The unpaid contribution has been recorded as a liability.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health care plan or program. SERS offers several types of health care plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 9 – POSTEMPLOYMENT BENEFITS (continued)**

The ORC provides the statutory authority to fund SERs' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remained of the employer 14% contribution to the Health Care Fund. At June 30, 2014, the health care allocation was .14%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were approximately \$314, \$119, and \$487, respectively. The entire amount has been contributed for fiscal years 2012 and 2013. For fiscal year 2014, the School has contributed 83% of the required amount. The unpaid contribution has been recorded as a liability.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**b. State Teachers Retirement System of Ohio**

Plan Description – The School contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for years ended June 30, 2014, 2013, and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. The School District's contribution to STRS Ohio allocated to post-employment health care for the years ended June 30, 2014, 2013, and 2012 were \$3,943, \$4,371, and \$4,465 each year. The entire amount has been contributed for fiscal years 2012 and 2013. For fiscal year 2014, the School has contributed 92% of the required amount. The unpaid contribution has been recorded as a liability.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 10 – EMPLOYEE BENEFITS**

**a. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Trustees. Administrators and classified staff earn up to thirty days of vacation per year, depending upon the position, scheduled hours, and length of service. Teachers receive three personal days and two vacation days to be taken throughout the school year as permitted by the school policy. The teachers are also permitted six weeks off in the summer due to their compensation being based on a 10.5 month work schedule but paid out over a twelve month period. Teachers, administrators, and non-certified employees earn sick leave at a rate of 2.46 hours per period. Sick leave may be accumulated up to a maximum of 480 hours. Accumulated unused leave is forfeited upon termination of employment.

**b. Insurance Benefits**

The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$10,000 is provided to all certified and non-certified employees. Health and Dental insurance coverage is provided through Anthem and Dental Care Plus.

**NOTE 11 – PURCHASED SERVICES**

During the fiscal year ended June 30, 2014, other purchased service expenses for services rendered by various vendors were as follows:

Instruction Services	\$ 26,995
Management Services	82,500
Legal Services	15,243
Other Professional and Technical Services	63,462
Repairs and Maintenance Services	8,924
Rentals	47,753
Other Property Services	26,071
Travel and Meeting Expense	12,009
Communication Services	2,790
Utilities	36,234
Contracted Food Services	27,390
Transportation Services	57,466
Other Purchased Services	79
Total	<u>\$ 406,916</u>

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 12 – CONTRACTED FISCAL SERVICES**

The School is a party to a fiscal services agreement with Mangen & Associates (M&A), which is an education finance consulting company. The Agreement may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A will perform the following services:

1. Financial Management Services
2. Treasurer/Accounting Services
3. CCIP Administration

The total fee paid for these services during fiscal year 2014 was \$8,784.

**NOTE 13 – CONTINGENCIES**

**a. Grants**

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2014, if applicable, cannot be determined at this time. However, in the opinion of management, and such disallowed claims will not have a material adverse effect on the overall financial position of the School at fiscal year-end.

**b. Other Grants**

The School's contract with its Sponsor provides for supplemental payments to the School from the Sponsor, as defined in the contract with the Sponsor. The School received \$120,000 during the fiscal year 2014 and 2013 based on this contract.

**c. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and Full Time Equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. There has been a review for the 2013-2014 school year; however, the conclusion of this review did not have a material effect on the financial statements.

**NOTE 14 – CHANGES IN ACCOUNTING PRINCIPLES**

*GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities"* clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources. The implementation of this statement requires the School to expense all debt issuance costs, rather than defer and amortize them over the life of the applicable debt issue. The implementation of this statement did not have an effect on the financial statements of the School.

**LIGHTHOUSE COMMUNITY SCHOOL  
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 14 – CHANGES IN ACCOUNTING PRINCIPLES (continued)**

*GASB Statement No. 66 “Technical Corrections – 2012 - an Amendment of GASB Statements No. 10 and No. 62”* resolves conflicting guidance that results from the issuance of GASB Statements No. 54 and No. 62. This Statement also amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends GASB Statement No. 62 to clarify how to apply GASB Statement No. 13 and results in guidance that is consistent with GASB Statement No. 48. The implementation of this statement did not have an effect on the financial statements of the School.

*GASB Statement No. 70 “Accounting and Financial Reporting for Nonexchange Financial Guarantees”* enhances comparability of financial statements by requiring consistent reporting by those governmental entities that extend nonexchange financial guarantees and by those governmental entities that receive nonexchange financial guarantees. This Statement was implemented in the School’s fiscal year 2014 financial statements; however, there was no effect.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Lighthouse Community School:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lighthouse Community School (the School), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
October 31, 2014

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# Dave Yost • Auditor of State

**LIGHTHOUSE COMMUNITY SCHOOL**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 16, 2014**