

***LIGHTHOUSE COMMUNITIES, INC.
AND SUBSIDIARY***

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2010

*Goodlander, Swett & Rybicki
Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lighthouse Communities, Inc.
Grand Rapids, Michigan

We have audited the accompanying consolidated statement of financial position of Lighthouse Communities, Inc. (a non-profit organization) and subsidiary as of June 30, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Communities, Inc. and subsidiary as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 24, 2011, on our consideration of the Organization's internal control over financial reporting and

on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements and other matters. The purpose of those reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Goodlander, Swett & Rybicki
Certified Public Accountants

January 24, 2011

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Year Ended June 30, 2010

ASSETS

Cash	\$ 328,387
Grants receivable	3,839,942
Accounts receivable	81,098
Neighborhood housing fund loan receivable	662,620
Houses held for resale	434,368
Property and equipment	3,062,495
Equity investment in affiliates	<u>26,111</u>
TOTAL ASSETS	<u>\$8,435,021</u> =====

LIABILITIES

Lines of credit	\$ 634,035
Accounts payable	153,747
Pre-development loan	14,250
Tenant security deposits	22,490
Long-term debt	<u>2,669,626</u>
TOTAL LIABILITIES	3,494,148

NET ASSETS

Unrestricted	1,375,202
Temporarily restricted	<u>3,565,671</u>
TOTAL NET ASSETS	<u>4,940,873</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$8,435,021</u> =====
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See Notes to Consolidated Financial Statements.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

CHANGES IN UNRESTRICTED NET ASSETS	
UNRESTRICTED REVENUES AND SUPPORT	
Contributions	\$ 22,892
Government grants	69,800
Sale of rehabilitated houses	1,081,423
Rental income	134,772
Developer fees and cost reimbursements for projects	10,219
Interest income	47,137
Special events net of expenses of \$10,416	4,963
Program income	<u>129,665</u>
	1,500,871
Net assets released from restrictions	
Restrictions satisfied by payments	<u>3,022,473</u>
TOTAL UNRESTRICTED REVENUE AND SUPPORT	4,523,344
EXPENSES	
Program services	3,590,076
Supporting services:	
Management and general	167,702
Fund raising	<u>55,566</u>
TOTAL EXPENSES	<u>3,813,344</u>
INCREASE IN UNRESTRICTED NET ASSETS	710,000
CHANGES IN TEMPORARILY RESTRICTED ASSETS	
Non-government grants	522,000
Government grants	4,211,412
Net assets released from restrictions	
Restrictions satisfied by payments	<u>(3,022,473)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>1,710,939</u>
INCREASE IN TOTAL NET ASSETS	2,420,939
NET ASSETS AT BEGINNING OF YEAR	<u>2,519,934</u>
NET ASSETS AT END OF YEAR	<u>\$4,940,873</u> =====

See Notes to Consolidated Financial Statements.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010

	Program Services		Supporting Services		Total
		Management	Fund Raising	Total	
Salaries	\$ 349,725	\$ 116,732	\$ 40,051	\$ 156,783	\$ 506,508
Employee benefits	43,959	14,673	5,035	19,708	63,667
Payroll taxes	35,396	11,814	4,054	15,868	51,264
TOTAL PERSONNEL EXPENSES	429,080	143,219	49,140	192,359	621,439
Maintaining and operating rental properties	86,343				86,343
Program costs for housing acquisition, development and resale	2,503,143				2,503,143
Southtown NRSA program costs	102,261				102,261
Other program direct costs	110,264	859		859	111,123
Professional fees	69	4,900		4,900	4,969
Office expense	34,708	11,585	3,975	15,560	50,268
Depreciation	123,195				123,195
Bad debts	34,499				34,499
General insurance	30,008	1,286	442	1,728	31,736
Interest	136,506	5,853	2,009	7,862	144,368
	\$ 3,590,076	\$ 167,702	\$ 55,566	\$ 223,268	\$ 3,813,344

See Notes to Consolidated Financial Statement.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES

Increase in net assets	\$ 2,420,939
Depreciation	123,195
Decrease (increase) in operating assets:	
Accounts receivable	(1,456,299)
Houses held for resale	(123,213)
Deposits	3,000
Increase (decrease) in operating liabilities:	
Accounts payable	(10,738)
Tenant security deposits	<u>1,478</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	958,362

CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES

Pre-development loan	(25,000)
Sale of property and equipment	246,063
Payments for property and equipment	<u>(641,950)</u>
NET CASH USED BY INVESTING ACTIVITIES	(420,887)

CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES

Increase in short-term debt	194,290
Payments on long-term debt	<u>(493,784)</u>
NET CASH USED BY FINANCING ACTIVITIES	(299,494)

NET INCREASE IN CASH 237,981

CASH AT BEGINNING OF YEAR 90,406

CASH AT END OF YEAR \$ 328,387

=====

Supplementary data:

Interest paid \$ 144,368

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See Notes to Consolidated Financial Statements.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2010

NOTE A -- NATURE OF ACTIVITIES

Lighthouse Communities, Inc. is a non-profit organization that seeks to stimulate community revitalization through providing quality affordable housing in target areas within Kent County, Michigan for persons of low and moderate income. Programs include rental and owner occupied rehabilitated housing, lead paint remediation, homeowner counseling and lending, and community organizing activities. Lighthouse also actively works to stimulate economic change in its target area through supporting commercial real estate developments. Included in the consolidated financial statements is the financial position and financial results of Roosevelt Park Commercial, LLC, a wholly-owned for profit subsidiary established to develop 2,400 square feet of commercial space in connection with a separate tax credit residential development in the target neighborhood.

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2010

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The consolidated subsidiary is a for profit limited liability company and may generate taxable income in the future.

Effective July 1, 2009, Lighthouse adopted Financial Accounting Standards Board Accounting Standards Codification 740 (formerly Interpretation 48) on Accounting for Uncertainty in Income Taxes. Management of Lighthouse believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

NOTE C -- GRANTS RECEIVABLE

Grants receivable are recorded net of present value discount for amounts scheduled to be received after more than one year. All significant accounts receivable at June 30, 2010 are expected to be received within a year.

NOTE D -- HOUSES HELD FOR RESALE

Under the Acquisition Development Resale (ADR) program, houses are purchased, rehabilitated and resold at affordable prices to individuals meeting certain income tests. The houses held at year end are accounted for as inventory being held for resale. The balance of the houses held for resale includes the cost of acquiring and cost incurred to rehabilitate less grants received to reimburse such costs.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 Year Ended June 30, 2010

NOTE E -- PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 153,042
Residential rental buildings	3,150,868
Office building used by Organization's staff	192,175
Office equipment	74,803
Construction in progress subsidiary	<u>208,518</u>
	3,779,406
Accumulated depreciation	<u>(716,911)</u>
	\$3,062,495
	=====

Under stipulation by the fund providers, the residential rental buildings maintain a 15 year affordability period whereby they must be rented to low-income individuals for 15 years.

NOTE F -- NEIGHBORHOOD HOUSING FUND LOANS

Neighborhood Housing Fund loans are disbursed to home owners who meet certain income and other qualifications and are in targeted neighborhoods. Loans range from \$5,000 to \$70,000 and are at a 6% fixed rate with amortization between 5 and 15 years. All loans are approved by a loan committee prior to origination.

Funding for the loans is from a loan from the Grand Rapids Community Foundation bearing interest at 1.0% and from participation loans from several area banks bearing interest at 5.5%. (See Note H).

LIGHTHOUSE COMMUNITIES, INC. SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended June 30, 2010

NOTE G -- LINES OF CREDIT

The lines of credit were comprised of the following at June 30, 2010:

	<u>Balance at June 30</u>
Line of credit with the Michigan Interfaith Trust Fund approved for \$500,000, payable interest only at 6%, secured by certain properties held for sale.	\$ 29,160
Lines of credit with several banks bearing interest at rates from 3.25% to 7.75%, maturing at different intervals over the next 18 months, all secured by real estate	<u>604,875</u>
	<u>\$ 634,035</u> =====

NOTE H -- LONG-TERM DEBT

Included in long-term debt is an unsecured loan from the Grand Rapids Community Foundation. The proceeds of the loan may be used only to fund acquisition and home improvement loans to individual homeowners in targeted neighborhoods under the Neighborhood Housing Fund loan program. The loan is approved for a total of \$1,000,000 of which \$1,000,000 had been drawn at June 30, 2010. The loan is payable quarterly at interest only at an annual rate of 1.0%. Payments of principal are due \$400,000 on December 31, 2011 and \$200,000 each on December 31, 2012, 2013 and 2014.

Long-term debt at June 30, 2010 is additionally comprised of various mortgages to banks secured by rental properties, the corporate office, lease assignments, and construction in progress. Interest rates are partly fixed and partly variable at rates from .5% to 1.0% over prime, and rates at June 30, 2010 varied from 4.71% to 7.75%. Total monthly payments on all long-term debt including interest was \$15,451 at June 30, 2010.

Additionally, the subsidiary company had a \$144,000 construction loan to fund the commercial project which was secured by construction in progress and guaranteed by Lighthouse. Payments are scheduled to begin at the completion of construction based on a 30 year amortization and 7.5% interest. The loan is due in full on August 1, 2012.

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
Year ended June 30, 2010

NOTE H -- LONG-TERM DEBT (CONTINUED)

Future maturities of all long-term debt are as follows:

year ended June 30, 2011	\$1,073,281
2012	644,000
2013	200,000
2014	200,000
After five years	552,345

NOTE I -- DESCRIPTION OF LEASING AGREEMENTS

The rental properties are located in targeted areas within the City of Grand Rapids and are rented to individuals who meet income and other criteria. Lease terms are all for one year.

NOTE J -- RETIREMENT PLAN

The Organization has established a retirement plan under Section 403(b) of the Internal Revenue Code which provides for employee contributions. There were no employer contributions to the plan during the year ended June 30, 2010.

NOTE K -- CONCENTRATIONS OF RISK

During the year the amount deposited in one bank may exceed federally insured limits. Management believes the Organization is not exposed to any significant credit risk as a result.

Funding for future operations of the Organization is in part dependent on the availability of government grants and low income tax incentives.

NOTE L -- INTERESTS IN LOW INCOME HOUSING TAX CREDIT
LIMITED PARTNERSHIPS

At June 30, 2010, in addition to the consolidated subsidiary described in Note A, Lighthouse Communities had formed three for-profit entities, for the purpose of being the general partners with a 0.01% interest in each of the Avenue Apartments Limited Dividend Housing Association Limited Partnership, the Uptown

LIGHTHOUSE COMMUNITIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
Year ended June 30, 2010

NOTE L -- INTERESTS IN LOW INCOME HOUSING TAX CREDIT
LIMITED PARTNERSHIPS (CONTINUED)

Village Limited Dividend Housing Association Limited Partnership, and the Roosevelt Park Lofts Limited Dividend Housing Association Limited Partnership. The limited partnerships have acquired housing projects which qualify for federal low income housing credits under Sec. 42 of the Internal Revenue Code. The 0.01% interest in the partnerships is not considered material and therefore is not included in the accompanying financial statements.

During the year ended June 30, 2010, Lighthouse Communities recognized \$10,219 of income from the projects for developer fees and cost reimbursements. In future years, if cash flow of the projects permits, there could be minor amounts of fee income received. The general partner can at the end of 15 years purchase the housing projects and assume the loans which would be payable in 30 years which is the end of the low income period.

Subsequent to June 30, 2010, Lighthouse Communities is in the process of pursuing additional similar projects.

In connection with the Uptown Village project, Lighthouse Communities, Inc. will own a 50% equity investment in a for profit Limited Liability Company which will own and lease 7200 square feet of office and retail space to commercial tenants. Lighthouse does not have adequate control over this project to warrant consolidation, and the investment will be accounted for using the equity method. The balance of the equity investment is \$26,111 at June 30, 2010.

LIGHTHOUSE COMMUNITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development: Home Investment Partnerships Program: Pass through from Michigan State Housing Development Authority	14.239		\$ 72,927
Lead Hazard Control Grant Program and Lead Hazard Reduction Demonstration Grant Program: Pass through from City of Grand Rapids	14.900		54,889
Community Development Block Grant: Neighborhood Revitalization Strategy Area Pass through from the City of Grand Rapids	14.218		210,686
Community Development Block Grant: Neighborhood Stabilization Program: Pass through from Michigan State Housing Development Authority	14.218		59,578
Pass through from Kent County			1,636,549
Pass through from City of Grand Rapids			<u>351,203</u>
Total expenditures of federal awards			\$ 2,385,832 =====

See Note to Schedule of Expenditures of Federal Awards.

LIGHTHOUSE COMMUNITIES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR
THE YEAR ENDED JUNE 30, 2010**

NOTE A -- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lighthouse Communities, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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INDEPENDENT AUDITORS' 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 (*No Material Weaknesses
Identified, Significant Deficiencies Identified, and No Instances
of Noncompliance or Other Matters Identified*)

To the Board of Directors of
Lighthouse Communities, Inc.
Grand Rapids, Michigan

We have audited the consolidated financial statements of Lighthouse Communities, Inc. and subsidiary as of and for the year ended June 30, 2010, and have issued our report thereon dated January 24, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lighthouse Communities, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements but not for the purpose of expressing an opinion on the effectiveness of Lighthouse's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lighthouse'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*.

This report is intended solely for the information and use of the management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Goodlander, Swett & Rybicki
Certified Public Accountants

January 24, 2011

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INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 (*Unqualified Opinion on Compliance; No
Material Weakness or Significant Deficiencies in Internal Control
Over Compliance Identified*)

To the Board of Directors
Lighthouse Communities, Inc.
Grand Rapids, Michigan

Compliance

We have audited Lighthouse Communities, Inc's. compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lighthouse Communities, Inc's. major federal programs for the year ended June 30, 2010. Lighthouse's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lighthouse's management. Our responsibility is to express an opinion on Lighthouse's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lighthouse's compliance with those requirements and performing such other procedures as we considered necessary in the

circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lighthouse's compliance with those requirements.

In our opinion, Lighthouse Communities, Inc. complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Lighthouse Communities, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lighthouse's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal over compliance. Accordingly, we do not express an opinion on the effectiveness of Lighthouse's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodlander, Swett & Rybicki

Goodlander, Swett & Rybicki
Certified Public Accounts

January 24, 2011

LIGHTHOUSE COMMUNITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

Section I - Summary of Audit Results

Financial Statements:

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None Reported

Type of auditors' report issued on compliance
For major programs: unqualified

Any audit findings that are required to be
Reported in accordance with section 510(a) of
OMB Circular A-133? Yes No

Identification of major program(s):

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B
programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

LIGHTHOUSE COMMUNITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

JUNE 30, 2010

Section II - Current Year Findings and Questioned Costs

FINANCIAL REPORTING

Significant Deficiency/Material Weakness

The inability of the Organization to internally prepare financial statements in accordance with generally accepted accounting principles. We have assisted in the preparation of the financial statements for the year ended June 30, 2010. Management has reviewed the financial statements with us to gain an understanding of those statements and has thereby determined that the statements are prepared in accordance with generally accepted accounting principles.

Management Response and Corrective Action Plan:

Management has reviewed the inability to internally prepare financial statements in accordance with generally accepted accounting principles and has determined that it is not practical or cost effective to have staff with that training and ability.

COMPLIANCE

There are no current findings or questioned costs that are considered material instances of noncompliance in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Section III - Federal Award Findings and Questioned Costs

FINANCIAL REPORTING

There were no findings or questioned costs.

COMPLIANCE

There were no findings or questioned costs.

LIGHTHOUSE COMMUNITIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended June 30, 2010

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Lighthouse Communities, Inc.
2. No significant deficiencies were disclosed during the audit of the financial statements of Lighthouse Communities, Inc.
3. No instances of noncompliance material to the financial statements of the Organization were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of internal control over major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Organization expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for the Organization are reported in this schedule.
7. The program tested as a major program was the Department of Housing and Urban Development Community Development Block Grant CFDA Number 14.218.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Organization was determined to be a high-risk auditee.

FINDINGS -- FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

None.