

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

EXAMINATION REPORT  
OF  
EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
LAKE COUNTY, INDIANA  
April 20, 2006 to June 30, 2007



**FILED**  
05/13/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dr. Douglas Thaman Robert Stearns	04-20-06 to 07-27-06 07-28-06 to 06-30-08
Superintendent of Schools	Carla Ellis	04-20-06 to 06-30-08
President of the School Board	Michael Ronan	04-20-06 to 06-30-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF EAST CHICAGO LIGHTHOUSE  
CHARTER SCHOOL, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of East Chicago Lighthouse Charter School (School Corporation), for the period of April 20, 2006 to June 30, 2007. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds, as listed in the Table of Contents, has been subjected to the examination procedures applied in the examination of the basic financial information and, in our opinion, is fairly stated in all material respects in relation to the basic financial information taken as a whole. The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

March 5, 2008

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
 SCHEDULE OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
 For the Year Ended June 30, 2006

<u>Functions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:	
Support services	\$ (129,384)
Debt service	<u>(100)</u>
Total governmental activities	<u>(129,484)</u>
General receipts:	
Bonds and loans	230,100
Investment earnings	<u>286</u>
Total general receipts	<u>230,386</u>
Change in net assets	100,902
Net assets - beginning	<u>-</u>
Net assets - ending	<u>\$ 100,902</u>
 <u>Assets</u>	
Cash and investments	<u>\$ 100,902</u>
 <u>Net Assets</u>	
Unrestricted	<u>\$ 100,902</u>

The accompanying notes are an integral part of the financial information.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 277,244	\$ -	\$ 4,524	\$ (272,720)
Support services	783,604	2,862	47,661	(733,081)
Nonprogrammed charges	<u>821</u>	<u>-</u>	<u>-</u>	<u>(821)</u>
Total governmental activities	<u>\$ 1,061,669</u>	<u>\$ 2,862</u>	<u>\$ 52,185</u>	<u>(1,006,622)</u>
General receipts:				
Other local sources				5,381
State aid				235,248
Bonds and loans				518,350
Grants and contributions not restricted to specific programs				200,375
Sale of property, adjustments, and refunds				34,428
Investment earnings				<u>8,948</u>
Total general receipts				<u>1,002,730</u>
Change in net assets				(3,892)
Net assets - beginning				<u>100,902</u>
Net assets - ending				<u>\$ 97,010</u>
<u>Assets</u>				
Cash and investments				<u>\$ 97,010</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 97,010</u>

The accompanying notes are an integral part of the financial information.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2006

	General	Public Charter Schools Program Grant	Totals
Receipts:			
Local sources	\$ 286	\$ -	\$ 286
Bonds and loans	230,100	-	230,100
Total receipts	<u>230,386</u>	<u>-</u>	<u>230,386</u>
Disbursements:			
Current:			
Support services	12,883	116,501	129,384
Debt service	100	-	100
Total disbursements	<u>12,983</u>	<u>116,501</u>	<u>129,484</u>
Excess (deficiency) of receipts over disbursements	<u>217,403</u>	<u>(116,501)</u>	<u>100,902</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 217,403</u>	<u>\$ (116,501)</u>	<u>\$ 100,902</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 217,403</u>	<u>\$ (116,501)</u>	<u>\$ 100,902</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 217,403</u>	<u>\$ (116,501)</u>	<u>\$ 100,902</u>

The accompanying notes are an integral part of the financial information.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	General	P.L. 97-35 ECIA Title I FY 07	Public Charter Schools Program Grant	Other	Totals
<b>Receipts:</b>					
Local sources	\$ 13,099	\$ -	\$ -	\$ 4,092	\$ 17,191
State sources	243,997	-	-	-	243,997
Federal sources	-	57,121	143,000	43,690	243,811
Bonds and loans	518,350	-	-	-	518,350
Sale of property, adjustments and refunds	34,428	-	-	-	34,428
<b>Total receipts</b>	<b>809,874</b>	<b>57,121</b>	<b>143,000</b>	<b>47,782</b>	<b>1,057,777</b>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	243,310	23,145	9,780	1,009	277,244
Support services	729,606	7,540	160	46,298	783,604
Nonprogrammed charges	821	-	-	-	821
<b>Total disbursements</b>	<b>973,737</b>	<b>30,685</b>	<b>9,940</b>	<b>47,307</b>	<b>1,061,669</b>
Excess (deficiency) of receipts over disbursements	(163,863)	26,436	133,060	475	(3,892)
Cash and investments - beginning	217,403	-	(116,501)	-	100,902
Cash and investments - ending	<u>\$ 53,540</u>	<u>\$ 26,436</u>	<u>\$ 16,559</u>	<u>\$ 475</u>	<u>\$ 97,010</u>
<b><u>Cash and Investment Assets - Ending</u></b>					
Cash and investments	<u>\$ 53,540</u>	<u>\$ 26,436</u>	<u>\$ 16,559</u>	<u>\$ 475</u>	<u>\$ 97,010</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>					
Unrestricted	<u>\$ 53,540</u>	<u>\$ 26,436</u>	<u>\$ 16,559</u>	<u>\$ 475</u>	<u>\$ 97,010</u>

The accompanying notes are an integral part of the financial information.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

East Chicago Lighthouse Charter School is a public charter school established under Indiana Code 20-24-3-1 and sponsored by Ball State University. The sponsor has granted a charter to the school's organizer, Lighthouse Academies of Indiana, Inc. (LAI), a public not-for-profit organization incorporated under the laws of the State of Indiana. LAI is the organizer and governing body of five charter schools located in Indiana. LAI has entered into a service agreement with Lighthouse Academies, Incorporated, (LHA), a not-for-profit organization incorporated in the State of Delaware to provide educational, managerial, legal, and financial services to the school. It is an employee of LHA who serves as the Treasurer of the lighthouse charter schools in Indiana.

Note 2. Fund Accounting

A. Government-Wide and Fund Financial Schedules

Government-Wide Financial Schedules

The Schedules of Activities and Net Assets - Cash and Investment Basis display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Schedules

Fund financial schedules of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial schedules are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial schedules.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The P.L. 97-35 ECIA title I FY 07 fund accounts for federal assistance for supplemental educational opportunities for disadvantaged children who are most at risk of failing to meet the State's challenging content and performance standards.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION  
(Continued)

The public charter schools program grant fund accounts for federal assistance provided for start up costs, including informing the community about the school, acquiring necessary equipment and educational materials and supplies, acquiring or developing curriculum materials, and other initial operating costs that cannot be met from State or local sources.

**B. Measurement Focus and Basis of Accounting**

The government-wide, and governmental fund financial schedules are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial schedules.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial schedules for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial schedules.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

**Note 4. Deposits and Investments**

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 5. Pension Plans

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Teachers' Retirement Fund  
150 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 232-3860

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

Note 6. Cost Sharing Arrangement

The School Corporation shares the building with the West Gary Lighthouse Charter School. The costs associated with the building, as well as some service costs are shared.

Note 7. Operating Leases

The School Corporation leases textbooks, furniture, and equipment from Lighthouse Academies, Inc. It is an operating lease requiring quarterly payments of \$6,916.

Note 8. Other Agreements

Charter Agreement with Ball State

Under the Charter Agreement with Ball State, the School Corporation is obligated to pay an administrative fee of 3% of the state and local tuition support received. The Charter Agreement remains in effect until June 30, 2013, and is renewable thereafter by mutual consent.

Contractual Obligation with Lighthouse Academies, Incorporated

Under the Contract with Lighthouse Academies, Inc., the School Corporation is obligated to pay 7.5% of revenues, as well as out of pocket costs, which include postage, printing, marketing and development, and travel. The Contract remains in effect until June 30, 2012, and is renewable thereafter by mutual consent.

Joint Service and Supply Agreement with Ball State

The School Corporation is a participant with 35 other school corporations with Ball State University as the designated administrator in a Virtual Special Education Cooperative (Cooperative). All Public Law 105-17 pass-through and discretionary funds awarded to the Cooperative will be used to fund the Cooperative's operations. Additional funds, if needed will be assessed to each of the participating schools based upon a percentage of each participating school's Average Daily Membership (ADM) count to the total ADM counts of all participating schools. As of June 30, 2007, the School Corporation has not been required to remit any assessments.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 9. Subsequent Events

Property tax rates and levies for 2006 pay 2007 were not established by February 15, 2006, as required by state statute due to the delay in the completion of the reassessment of Lake County.

The 2006 pay 2007 tax bills were mailed by the County Treasurer in December 2007, with a January 31, 2008, due date. Distribution to the taxing districts is expected by March 15, 2008. The School Corporation did receive a partial distribution of property taxes on October 26, 2007, in the amount of \$124,578.50. This was about one-half of their full property tax distribution for 2007.

On August 29, 2007, the School Corporation received loan proceeds of \$421,751 from the Indiana Common School Fund. The loan is repaid through reductions of their state distributions, beginning on January 1, 2009, and bears an interest rate of 4%.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2007

	School Lunch	East Chicago Foundation	Miscellaneous Programs	Title II - Improving Teacher Quality FY 08	Totals
Receipts:					
Local sources	\$ 2,862	\$ 1,200	\$ 30	\$ -	\$ 4,092
Federal sources	<u>43,436</u>	<u>-</u>	<u>-</u>	<u>254</u>	<u>43,690</u>
Total receipts	<u>46,298</u>	<u>1,200</u>	<u>30</u>	<u>254</u>	<u>47,782</u>
Disbursements:					
Current:					
Instruction	-	1,009	-	-	1,009
Support services	<u>46,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,298</u>
Total disbursements	<u>46,298</u>	<u>1,009</u>	<u>-</u>	<u>-</u>	<u>47,307</u>
Excess of receipts over disbursements	<u>-</u>	<u>191</u>	<u>30</u>	<u>254</u>	<u>475</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 191</u>	<u>\$ 30</u>	<u>\$ 254</u>	<u>\$ 475</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ -</u>	<u>\$ 191</u>	<u>\$ 30</u>	<u>\$ 254</u>	<u>\$ 475</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ -</u>	<u>\$ 191</u>	<u>\$ 30</u>	<u>\$ 254</u>	<u>\$ 475</u>

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 June 30, 2007

The Charter School has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Notes and loans payable:		
Common school fund loan with the State of Indiana	\$ 394,350	\$ 32,720
Revolving loan fund with Lighthouse Academies of Indiana, Inc. *	230,000	20,525
Revolving promissary note with Harris Bank	<u>124,000</u>	<u>125,819</u>
Total governmental activities debt	<u>\$ 748,350</u>	<u>\$ 179,064</u>

\* - The loan agreement calls for monthly payments of principal and interest to be repaid if funds are available. Because Lake County was late in billing and settling taxes in 2007, funds were not available for payments to be made in accordance with the amortization schedule. LHA, Inc. is currently renegotiating the agreement to avoid late fees and charges being incurred on the late payments. Of the amount reported as Principal and Interest Due Within One Year \$13,684 is past due.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS

DUPLICATE RECEIPTS ISSUED

Receipts were issued more than once for the same collections as follows:

<u>Date First Receipt Issued</u>	<u>First Receipt Number</u>	<u>Date of Second Receipt</u>	<u>Second Receipt Number</u>	<u>Issued To:</u>	<u>Amount</u>
07-18-06	1151	07-26-06	1004	Auditor of the State	\$ 394,350.00
10-25-06	1307	10-31-06	1013	Students	102.00
10-01-06	1014	10-25-06	1308	West Gary Lighthouse Charter	8,335.48
03-27-07	1029	03-27-07	1345	School Lunch Division/Fed Lunch Reim	5,105.33
03-08-07	1027	03-08-07	1028	Fed Lunch Reim/Fed Food Program	5,738.60
03-09-07	1033	03-12-07	1026	Title I	9,520.00

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PRESCRIBED FORMS

The School Corporation uses a receipt form which is not a prescribed or approved form for receipting school lunch and breakfast money, field trip collections, lost books, and collections from students for shirts and patches. These fees are subsequently grouped and a prescribed receipt is issued, but the prescribed receipt cannot be traced to the grouped receipts.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NEGATIVE DISBURSEMENTS

The School Corporation contracts with a service provider to perform payroll services. The services include the calculation and remittance of payroll expenses. The service provider remits all amounts withheld from the employee paychecks except for health insurance and retirement benefits. The payroll expenses are posted when the School Corporation receives the information from the service provider, including the amounts that were withheld from the employee paychecks but not yet paid. The School Corporation is posting negative disbursements to record these withholdings.

Negative disbursements were also made to make corrections for errors in posting; however, some of the error corrections were not made to the correct accounts which resulted a negative disbursement being reported for the account overall; e.g., within the Public Charter Schools Program Grant Fund,

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

\$19,048.16 was posted to the disbursement category "Community Relations - Professional Fees" on June 2, 2006. \$19,048.16 was posted as a negative disbursement on October 31, 2006, to move the disbursement from "LHA Travel" to "Office Other Professional Services"; however, the original disbursement was never posted to either of these two disbursement categories.

In an accounting system maintained on a cash basis, it becomes necessary to establish certain ledger accounts to provide an accounting control of money which has been disbursed from the fund in which it was initially receipted but which is still property of the school corporation. If the money was disbursed for the purchase of an asset of another nature, such as an investment, or placed in the custody of a trust or special disbursing officer as in the case of a petty cash fund, it must be accounted for in a manner which will separate it from its original fund as cash but not to permit it to lose its identity as an asset of the School Corporation.

There are also instances in which the school corporation serves as a trust officer and must maintain control of certain items of cash which are not available to the school corporation to disburse for current operating purposes but which must be transmitted to a payee for a designated purpose at a later date to fulfill a liability of such trust. Examples of these are payroll deduction accounts. Other transactions provide cash for current operating purposes but at the same time create a liability to the school corporation, as in the case of a loan. To provide accounts for controlling these items without disrupting the single entry cash accounting of the system, the clearing accounts were established. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 6)

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ACCOUNTS PAYABLE VOUCHERS

1. The East Chicago Lighthouse Charter School is managed by Lighthouse Academies, Incorporated, sometimes referred to by the initials LHA or LAI. LHA bills East Chicago Lighthouse Charter School for administrative fees, and recoverables. Recoverables are reimbursable items such as phone bills, credit card bills, office supplies, postage, etc. (Items paid by LHA on behalf of the East Chicago Lighthouse Charter School.) Such items are listed on an invoice prepared by LHA, but the original vendor invoices supporting those purchases are not attached to the accounts payable voucher as required.

All claims, invoices, receipts, and accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed: . . .

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)
2. \$25,000 was transferred in May 2006 to Lighthouse Academies, Incorporated, by wire transfer. An accounts payable voucher was not prepared, and the \$25,000 disbursement was never posted to the records. The \$25,000 was returned to the School Corporation in June 2006, but a receipt was not written, nor was the transaction recorded in the records.

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

3. The minutes of the School Board for East Chicago Lighthouse Charter School, also include actions on four other Lighthouse Charter Schools. The School Board approves "Schedules of bills" in the minutes to the meetings. We could not determine based upon the minutes if the schedules were complete or to which schools they applied, because information was not given regarding the school, the check numbers, the time period of the accounts payable vouchers, or the dollar amounts. The schools and dollar amounts were indicated in only 4 cases.

All business transacted by the governing body must be recorded in the minutes of the meetings. It is the duty of the secretary of the governing body to keep the minutes and the minutes of each meeting should be approved by the governing body and signed by the members attending.

It is important that the minutes be accurate and complete since the governing body speaks from its minutes. It is not necessary that all documents acted upon, such as bids and contracts, be copied in the minutes but reference thereto and the action taken thereon should be recorded in the minutes and the documents carefully preserved. There are important papers and documents; however, that will need to be completely recorded in the minutes, such as proceedings to issue bonds. You should consult the school attorney if a question arises as to the need for making a complete record on any matter.

Examples of school business decisions and transactions which should be recorded in the minutes are: . . .

17. Record number of claims or accounts payable vouchers approved and allowed or disallowed by the governing body at each meeting and the reasons for disallowance. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

4. The funds and accounts indicated on the accounts payable vouchers did not always agree to the funds and accounts to which the expenditure was posted. Additionally, many transactions were "reclassified" throughout the 2006-2007 school year. Transactions which were posted to the General Fund originally, were "reclassified" to a grant fund. The corresponding check numbers are not indicated in the ledgers when the transactions are "reclassified". Also, a transaction number is assigned by the computer system to the entry removing the disbursements from the General Fund, and another transaction number is assigned by the computer system to the entry posting the disbursement to the Grant Fund. The funds and accounts on the accounts payable vouchers are not changed to address these reclassifications.

The School Corporation did not maintain the duplicate checks until August 2006; therefore, to determine checks written in June 2006 the check registers were used, which did not agree to the checks clearing the bank account. The check register for example, indicated check number 1010 was issued in the amount of \$5,071.66. An accounts payable voucher was prepared, which has this check stub attached in the same amount, but the check never cleared the bank and was not found posted to the ledger.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

5. Payments are made by the School Corporation to West Gary Lighthouse Charter School for rent and other shared expenses; however, the payments are not addressed in a contract.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

## PAYROLL

1. Employee Earning's Records (General Form 99B) or an equivalent were not presented for examination. Therefore, the information reported on the Employee Wage and Tax Statements (Forms W-2) could not be verified.

A page of the form (Employee's Earnings Record General Form 99B) shall be prepared for each employee and shall be posted from the information on the payroll schedule and voucher, General Form No. 99. In addition to the personal history data on the upper

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

margin, space is provided for recording the earnings and deductions for one year by utilizing both sides of the page. These are totaled by quarter and quarterly totals are accumulated for the year to provide information for preparing earnings and payroll deduction reports to the governmental agency concerned and annual statements to the employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

2. Employee vacation and sick time balances could not be verified because the Employee Service Record is not prepared.

The Employee's Service Record (General Form 99A) is designed for use by the school principals in providing the business office the attendance information for preparing Payroll Form 99. A page should be prepared for each employee other than teaching personnel (see use of Form 514). The space for each scheduled work day should be marked per the code on the lower margin to indicate whether the employee worked, lost time or was on authorized leave of absence. Space is provided for a twelve month record on each side of the page. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

#### MEAL COUNTS

The claims for reimbursement of free and reduced priced lunches could not be verified to supporting documentation. The School Corporation uses an electronic system for tracking the meal types served (free, reduced, or paid). The counts taken from the electronic system did not agree to the meal counts claimed for reimbursement. The Office Manager indicated that we would also need to include counts taken on class rosters. The Office Manager said that the electronic system frequently "goes down", and class rosters are used to record the meal counts. We requested the class rosters for December 2006 and January 2007. We included all students who had a checkmark beside their name as a free meal type and when we added to the lunch counts on the electronic system, we still had significant variances. 1,411 meals were claimed as free; however, the electronic reports and class rosters only supported 1,043 meals served as free for December 2006. The School Corporation over claimed 470 free meals for January 2007. Reduced priced meals were also over claimed based upon the procedures followed by 15 and 17 for December 2006 and January 2007, respectively.

The class rosters used were provided by the Office Manager. None of the class rosters indicated the meal type (free, reduced, or paid). Eight out of 20 class rosters for December 2006, used for lunch counts did not indicate the dates but were included because they were provided by the Office Manager as support for the meal counts. Three of the rosters did not indicate whether or not the meals were breakfast or lunch. All five of the rosters for January 2007 were dated, but none indicated the meal type, and only one did not indicate whether breakfast or lunch was served.

The Code of Federal Regulations (CFR) for the School Lunch Program, CFR § 210.7 (c) states in part, "To be entitled to reimbursement under this part, each school food authority shall ensure that Claims for Reimbursement are limited to the number of free, reduced price and paid lunches and meal supplements that are served to children eligible for free, reduced price and paid lunches and meal supplements, respectively, for each day of operation.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

- (1) Lunch count system. To ensure that the Claim for Reimbursement accurately reflects the number of lunches and meal supplements served to eligible children, the school food authority shall, at a minimum: . . .
- (iii) Base Claims for Reimbursement on lunch counts, taken daily at the point of service, which correctly identify the number of free, reduced price and paid lunches served to eligible children;"

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEXTBOOK RENTAL ASSISTANCE

The claim for textbook rental assistance reported 108 students as eligible for free or reduced priced lunches as of November 2006; however, information used for the School Lunch claim for reimbursement showed only 104 students as eligible.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

REPORTS NOT FILED TIMELY

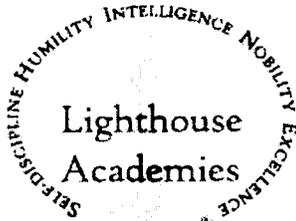
The expenditures reported on the Title I quarterly report for the quarter ending March 31, 2007, were \$6,610 more than expenditures posted to the ledger as of that same date. Additionally, the report was filed one month late. The report for the quarter ended June 30, 2007, was also filed late.

The Teacher Retirement Fund report for the quarter ended September 30, 2006, was 2 days late, and the report for the quarter ended March 31, 2007, was 12 days late.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL  
EXIT CONFERENCE

The contents of this report were discussed on March 5, 2008, with Robert Stearns, Treasurer; Ms. Susan Burt, Indiana Regional Accountant; Tess Mitchner, School Principal; Bertha Rios, School Office Manager; and Carla Ellis, Superintendent of Schools. The official response has been made a part of this report and may be found on pages 22 through 26.



# East Chicago Lighthouse Charter School

725 Clark Road · Gary, IN 46406 · Ph: 219-977-9583 · Fax: 219-977-9725

March 13, 2008

To: State Board of Accounts  
302 West Washington St, Room E 418  
Indianapolis, IN 46204-2765

From: Robert Stearns, Treasurer

## **OFFICIAL RESPONSE for East Chicago Lighthouse Charter School**

### Duplicate Receipts Issued

Audit comment: Receipts were issued more than once for the same collections.

School's response: We acknowledge the SBOA requirement for prescribed forms including the cash receipts voucher and the SBOA's position it is the original source document. We have prepared the forms for each deposit as the entry into the single entry accounting system. Although there were a few instances that duplicate receipt vouchers were prepared, duplicate entries were not recorded into the accounting system. The seven noted duplicate receipt forms did not result in duplicate transactions into the accounting system nor did it have any effect on the control over the receipts, revenues or receivables as revenues, receivables and cash are reconciled on a monthly basis. The main revenue sources are from the Department of Education or local counties who most often make payment electronically. They have not required the issuance of a receipt voucher. All late payments from government agencies are promptly follow up as to collection status. Those responsible for the preparation of the voucher are not the same individuals who prepare the accounting entry. Time is of the essence in maintaining contemporaneous accounting records and in those instances the voucher preparation was late and the accounting personnel created the voucher. We will review our internal procedures to have a single person create the voucher on a timely manner and if duplicate vouchers are created, they will be voided so as to avoid this comment in future audits. As to the practicality of cash receipt vouchers, we view the documentation received from state and local governments as the original source document for deposits. We will focus our attention to better control over the issuance of the prescribed cash receipt voucher

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*We prepare our students for college through a rigorous arts-infused program.*

## Prescribed Forms

Audit comment: The school issued non-prescribed cash receipt vouchers for the sale of food, uniforms, field trips and other student collections.

School's comment Due to the numerous receipts of small amounts, the school used the state prescribed voucher form as a lead sheet and an inexpensive easy-to-use cash receipt book from an office supply store as the receipt given to students. The will issue prescribed forms for all student receipts.

Additionally, a cost-benefit analysis was done for the collections from students for the meals programs. The cost to process forms exceeded the collections from students for the free and reduced meal programs. As a result the school elected to implement a zero pricing policy and universal feeding program so that all students now eat breakfast and lunch at no charge. We do not expect to receive this audit comment in future audits but we have also forgone a small amount of revenue that a simpler efficient system, albeit unacceptable by the SBOA, may have yielded.

## Negative Disbursements

Audit comment: The school posts employee withholdings for health and retirement withholdings to the related expense accounts rather than the prescribed agency fund account.

School's comment: School will post the employee withholdings for retirement and health insurance to the agency fund rather than expense accounts in the non-agency funds. As well, the school will post the corresponding payment to the retirement funds and benefit companies to same agency fund to show that the liability has been satisfied.

Audit comment: The school made corrections of posting errors which resulted in an overall negative balance in the posting account.

School's comment: The school made a prior period adjustment to correct a fund posting error. With the prior year closed care was not taken as to the exact account number that was the source for the reclassification. The overall fund balance was correct and the account where the original disbursement was posted was disclosed to the SBOA auditor. Since the first year the school has implemented better review and closing of funds in the accounting system to minimize subsequent reclassifications.

## Accounts Payable Vouchers

Audit comment: Invoices for reimbursable items for expenses paid by Lighthouse Academies or Lighthouse Academies of Indiana, Inc. and billed to the school did not have copies of vendor invoices attached.

School comment: In the past Lighthouse Academies provided copies upon request to the school and auditors. In the future Lighthouse Academies will attach copies for expenses it pays on behalf of the Indiana charter schools it manages, including expenses for group health insurance, equipment leases, and smaller items such as telephone, background checks, and travel.

Audit comment: Payments of credit card statements did not have vendor receipts attached.

School comment: The credit card is used as a local imprest account used whenever the school has an immediate need to pay for small school related expenses. The account has a small available credit balance not to exceed \$1,000. In the past, payment was made with only signature of the authorized individual and the notation as to the nature of the expense. This was to expedite payment so as to avoid interest charges which are not allowed. Going forward, the school will submit original receipts with the statement to replenish the account.

Audit comment: The school did not record a wire transfer disbursement and wire transfer receipt for \$25,000.

School comment: This was advancement from the school for the purpose of the payment of health insurance to the Organizer and the subsequent refund of the advance upon payment of health insurance at year end. The failure to record the two canceling entries was an oversight and happened at a time when the school was changing from an outside accounting service to handling its own accounting needs.

Audit comment: The minutes did not contain detailed information as to the approval of disbursement vouchers.

School comment: The board secretary proactively addressed this issue in 2007 by providing more details within the minutes as to the approval of vouchers. All board members for all monthly meetings received board packets which contained agenda, prior month minutes for approval, various agenda attachments including detailed schedules of bills or accounts payable voucher registers; a prescribed SBOA form. At each meeting the board reviewed, discussed and approved the voucher registers. In 2007, the minutes as far as vouchers goes, became more detailed to identify the school, the amount and a reference to the schedule. The school will recommend to the board Secretary to maintain the level of detail in the minutes that reference the voucher registers and to record the number of claims allowed or disallowed and the reason why.

Audit comment: The school made reclassifications in total rather than in detail.

School comment: The school will take care to post the original receipt or disbursement to the proper fund or account to minimize reclassifications. In addition it will make reclassifications by check amount and number rather than as a summary total.

Audit comment: School did not maintain duplicate checks until August 2006. In addition the school voided a check but did not retain the original check.

School comment: As part of the accounting procedures required by the SBOA, the school makes photocopies of checks and keeps them in a file in numerical order. Previous to August 2006, the school filed its paid invoices alphabetically rather than numerically. Starting in August 2006, the school proactively performed the added task required by the SBOA of photocopying checks and keeping them in numerical order. The school did have a copy of the mentioned voided check. In the future the school will attempt to locate the original check of any outstanding check that is voided and keep on file. If checks to be voided are lost, the school will consider the need and added expense for issuing a stop payment with the bank.

Audit comment: The school made payments for shared facilities and other costs to West Gary Lighthouse Charter School for which there was not a contract.

School comment: The school will create and enter into contracts before processing transactions.

### Payroll

Audit comment: Employee earning's records (form 99B) or an equivalent was not presented for audit.

School comment: In the future the school will prepare the form 99B equivalent. The school uses the service of an outside payroll service where the employee records are kept in that service's database. Various reports were prepared but none that met the equivalency of form 99B. As a control measure, the outside service company provided a SAS 70 letter that attested to the fact that its internal controls were examined and found to be acceptable. Internally various account reconciliations are done monthly to ensure payroll costs are accurate and properly recorded

Audit comment: Employee vacation and sick time could not be verified because the Employee Service Record (form 99A) was not prepared.

School comment: Lighthouse School's have maintained the tracking of leave on a spreadsheet and whenever necessary have reduced employee's pay for excessive amounts of leave time. The school will replicate the form 99A and use it as its tracking system of employee vacation and sick time.

### Meal Counts

Audit comment: The auditor could not substantiate free and reduced lunch claims.

School comment: The school made use of a manual system and a computer system. In both instances records were kept. The support for the manual system was classroom checklists which were summarized each month on a spreadsheet. These were filed at the Lighthouse headquarters where the claim was submitted by the treasurer. The computer system has various lengthy reports which could have easily been produced for the auditors. When the treasurer asked if there were any open points for the audit remaining no mention was made of supporting documentation for the meal program. These are available for examination at anytime. The school will maintain electronic copies on folders on its premises with instruction to present to auditors.

Audit comment: The supporting documentation did not substantiate the claims to the USDA free and reduced meals programs for the months of December 2006 and January 2007 resulting in over-claims.

School comment: The school has supporting documentation for the months in question and there were no over-claims. The school ran a parallel manual system while it switched to an electronic point-of-sale (POS) system. The POS system was the system used to determine the claim in the questioned months as it was deemed to be working effectively. The auditor's were mistakenly presented checklists and excel files from the manual system that were incomplete as they were phased out during that time. Detailed records do exist for the electronic system which document the name of the student served and the date and time for each day of the claim month. The electronic system is a specialized POS system for the USDA free and reduced meals programs.

The federal edit check report is generated from the system and is the basis for the claim. Detailed transactions are stored electronically that support the federal edit check report.

#### Textbook Reimbursement Grant

Audit comment: The school reported 108 students eligible for textbook reimbursement grant but reported only 104 students for free and reduced meals in November.

School comment: The deadline for filing the textbook grant is in October not November, and the school had 107 free and reduced applicants in October. There is no regulation that the November counts are used to determine the textbook reimbursement. Nevertheless, the school had not reconciled student free and reduced lunch counts to the textbook grant and was off by one student. The school will reconcile the grant to the lunch program in future reporting periods.

#### Reports not filed timely

Audit comment: The expenditures for the quarter ending March 31, 2007 were more than the expenditures posted to the ledger for the same date. Additionally the report was filed one month late.

School comment: The school monitors its grant expenditures budget to actual on an excel file and reconciles to the fund ledger on a regular basis. In the past, prior period reclassifications have been required for misposting of invoices or payroll paid, which accounted for the discrepancy which was due to the timing and closing of the records. The school has developed and improved its reporting system over the past year to minimize correcting entries, especially prior period entries. The system will also allow accurate and timely filing of the quarterly monitoring reports due 10 days after the quarter end.

Please do not hesitate to contact me if you have any questions.

Sincerely



Robert V. Stearns, Treasurer  
Lighthouse Academies of Indiana, Inc, the Organizer for,  
East Chicago Lighthouse Charter School