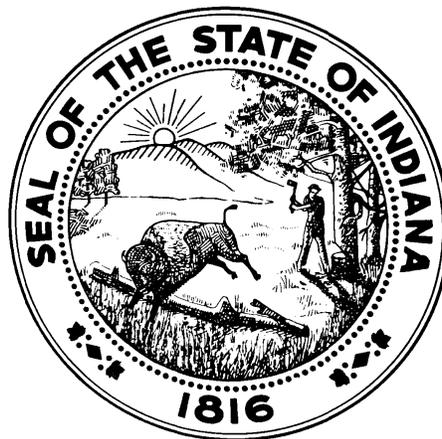


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
WEST GARY LIGHTHOUSE CHARTER SCHOOL
LAKE COUNTY, INDIANA
May 31, 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	05-31-06 to 07-27-06 07-28-06 to 06-30-08
Superintendent of Schools	Carla Ellis	05-31-06 to 06-30-08
President of the School Board	Michael Ronan	05-31-06 to 06-30-08



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WEST GARY LIGHTHOUSE
CHARTER SCHOOL, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of the West Gary Lighthouse Charter School (School Corporation), for the period of May 31, 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 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

WEST GARY 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	\$ (191,755)
Debt service	<u>(100)</u>
Total governmental activities	<u>(191,855)</u>
General receipts:	
Bonds and loans	230,100
Investment earnings	<u>216</u>
Total general receipts	<u>230,316</u>
Change in net assets	38,461
Net assets - beginning	<u>-</u>
Net assets - ending	<u>\$ 38,461</u>
 <u>Assets</u>	
Cash and investments	<u>\$ 38,461</u>
 <u>Net Assets</u>	
Unrestricted	<u>\$ 38,461</u>

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

WEST GARY 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	\$ 815,836	\$ -	\$ 10,527	\$ (805,309)
Support services	<u>2,119,664</u>	<u>8,587</u>	<u>112,108</u>	<u>(1,998,969)</u>
Total governmental activities	<u>\$ 2,935,500</u>	<u>\$ 8,587</u>	<u>\$ 122,635</u>	<u>(2,804,278)</u>
General receipts:				
Other local sources				5,067
State aid				916,692
Bonds and loans				1,509,786
Grants and contributions not restricted to specific programs				367,589
Sale of property, adjustments, and refunds				343,275
Investment earnings				<u>26,293</u>
Total general receipts				<u>3,168,702</u>
Change in net assets				364,424
Net assets - beginning				<u>38,461</u>
Net assets - ending				<u>\$ 402,885</u>
 <u>Assets</u>				
Cash and investments				<u>\$ 402,885</u>
 <u>Net Assets</u>				
Unrestricted				<u>\$ 402,885</u>

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

WEST GARY 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

	<u>General</u>	<u>Public Charter School Program</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 216	\$ -	\$ 216
Bonds and loans	<u>230,100</u>	<u>-</u>	<u>230,100</u>
Total receipts	<u>230,316</u>	<u>-</u>	<u>230,316</u>
Disbursements:			
Current:			
Support services	75,033	116,722	191,755
Debt services	<u>100</u>	<u>-</u>	<u>100</u>
Total disbursements	<u>75,133</u>	<u>116,722</u>	<u>191,855</u>
Excess (deficiency) of receipts over disbursements	<u>155,183</u>	<u>(116,722)</u>	<u>38,461</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 155,183</u>	<u>\$ (116,722)</u>	<u>\$ 38,461</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 155,183</u>	<u>\$ (116,722)</u>	<u>\$ 38,461</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 155,183</u>	<u>\$ (116,722)</u>	<u>\$ 38,461</u>

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

WEST GARY 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	Title I	Public Charter School Program	School Lunch	Totals
Receipts:					
Local sources	\$ 31,359	\$ -	\$ -	\$ 8,587	\$ 39,946
State sources	938,734	-	-	-	938,734
Federal sources	130	223,709	143,750	100,594	468,183
Bonds and loans	1,509,786	-	-	-	1,509,786
Sale of property, adjustments and refunds	343,275	-	-	-	343,275
Total receipts	2,823,284	223,709	143,750	109,181	3,299,924
Disbursements:					
Current:					
Instruction	712,782	87,624	15,430	-	815,836
Support services	1,957,526	30,423	22,534	109,181	2,119,664
Total disbursements	2,670,308	118,047	37,964	109,181	2,935,500
Excess of receipts over disbursements	152,976	105,662	105,786	-	364,424
Cash and investments - beginning	155,183	-	(116,722)	-	38,461
Cash and investments - ending	<u>\$ 308,159</u>	<u>\$ 105,662</u>	<u>\$ (10,936)</u>	<u>\$ -</u>	<u>\$ 402,885</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 308,159	\$ 105,662	\$ (10,936)	\$ -	\$ 402,885
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 308,159</u>	<u>\$ 105,662</u>	<u>\$ (10,936)</u>	<u>\$ -</u>	<u>\$ 402,885</u>

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

WEST GARY 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.

West Gary 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 title I 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.

WEST GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

The public charter schools program 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.

The school lunch fund is to be used to record all receipts from the sale of lunches, federal and state reimbursements, and any other receipts associated with the school lunch program. Disbursements from the school lunch fund include contractual obligations for the cost of the food, food preparation and service of the food.

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.

WEST GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

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.

Note 5. Pension Plans

A. 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.

B. 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

WEST GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

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:

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 West Gary Lighthouse Charter School shares the building with East Chicago 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 \$4,073.

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.

WEST GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

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.

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 received a partial distribution of property taxes on October 26, 2007, in the amount of \$472,533, approximately one-half of their full property tax distribution for 2007.

On August 29, 2007, the School Corporation received loan proceeds of \$425,776 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%.

WEST GARY LIGHTHOUSE CHARTER SCHOOL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For the Year Ended June 30, 2007

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Notes and loans payable		
Common School Loans	\$ 1,509,786	\$ 124,716
Promissory Note	<u>230,000</u>	<u>10,465</u>
Total governmental activities long-term debt	<u>\$ 1,739,786</u>	<u>\$ 135,181</u>

WEST GARY LIGHTHOUSE CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balance of the Public Charter School Program Fund was overdrawn at June 30, 2006 and June 30, 2007, in the amounts \$116,722 and \$10,936, respectively.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (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 review. Therefore, the information on the Employee Wage and Tax Statement (Form 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 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. An accrual balance report was presented for review in place of the employee service record but the report did not have all the required fields as shown on the prescribed form.

The accrual balance report lists each employee, his or her available accrual balance for paid time off and the total amount of time used as of the date printed. An accrual balance report for the pay period ending June 30, 2007, was not presented for review.

Accrual reports for pay check dates June 13, 2007, and August 20, 2007, were presented for review; however, the Office Manager indicated that the balances were incorrect. The accrual reports are maintained by a service provider. We asked for the corrected accrual report, but no such report was maintained for review. The Office Manager indicated that she simply provided the changes to the service provider over the phone. We were given an accrual report for pay check dated September 20, 2007; however, since only balances are provided, we could not adequately verify the accuracy of the new report.

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)

WEST GARY LIGHTHOUSE CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. The Lighthouse Academies Employee Handbook, Page 25, Paragraph 5, states in part: "At its discretion, Lighthouse Academies may grant an employee's request to use vacation in advance of its accrual. In such circumstances, the employee will be required to sign a form authorizing Lighthouse Academies to deduct appropriate amounts from the employee's pay-check for vacation taken in advance of its accrual. The principal or Senior Vice President must approve all requests for vacation exceeding the amount of vacation accrual." During the examination, records indicated individuals took more paid time off than what had been accumulated, which resulted in a negative balance during the year. Authorization forms for the employees with negative balances were not presented for review.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SCHOOL LUNCH VERIFICATION

The School Corporation receives federal financial assistance for students who qualify for free or reduced priced meals. Parents are required to submit applications which indicate income levels to determine a qualifying student. The School Corporation is required to verify the information on a select number of the applications submitted. Such verifications are required to be retained for review. The school lunch verifications were not presented for review.

The Code of Federal Regulations (CFR) for the School Lunch Program, CFR § 245.6a (c) states in part: "All verified applications must be readily retrievable on an individual school basis and include all documents submitted by the household for the purpose of confirming eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission. All relevant correspondence between the households selected for verification and the school or school food authority must be retained. School food authorities are encouraged to collect and report any or all verification data elements before the required dates.

CONTRACTS

The School Corporation entered into an operating lease agreement with Charter School Development Corporation for the rental of the building on May 3, 2006. The Charter School Development Corporation is a District of Columbia Not-For-Profit Corporation, which was responsible for acquiring the land, demolishing the existing building, and constructing the new building. Charter School Development Corporation was responsible for providing the funding, which included funding provided by Local Initiatives Support Corporation (LISC).

An accounts payable voucher was presented for review indicating a payment was made to a contractor for \$44,257 on March 5, 2007, for facility development. An invoice for the \$44,257 was not attached to the voucher as required, nor was an invoice subsequently presented for review to support the payment made. The documentation attached to the accounts payable voucher to support the payment was an e-mail from the Treasurer to the accountant stating the funds were to be reimbursed from the corporation who owns the building or from the Local Initiatives Support Corporation (LISC), who provided some of the funding for the renovations. The reimbursements occurred on March 15, 2007 and November 20, 2007. The School Corporation received \$30,250 from Lighthouse Academies, Inc. (LHA)

WEST GARY LIGHTHOUSE CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

on March 15, 2007 and on November 20, 2007, the School Corporation received the balance due of \$14,007 from "LFM" based upon the ledger. Based upon the lease agreements provided for review, as well as other information provided, no information has been provided as to who "LFM" is, or what the connection is to the payment.

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)

Indiana Code 20-24-7-7 states: "When a charter school uses public funds for the construction, reconstruction, alteration, or renovation of a public building, bidding and wage determination laws and all other statutes and rules apply."

ACCOUNTS PAYABLE VOUCHERS

1. The West Gary Lighthouse Charter School is managed by Lighthouse Academies, Incorporated sometimes referred to by the initials LHA or LAI. LHA bills West Gary Lighthouse Charter School for administrative fees and recoverables. Recoverables are generally phone bills, credit card bills, office supplies, postage, etc., for which LHA pays on behalf of West Gary Lighthouse Charter School and is seeking reimbursement. Such items are listed on an invoice prepared by LHA, but the original vendor invoices supporting those purchases are not attached to the claim 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)

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. \$68,544.20 was transferred to Lighthouse Academies, Incorporated by wire transfer for insurance and support services in April 2007. An accounts payable voucher was prepared, but the invoices attached did not equal the amount paid. No receipts or invoices to substantiate \$4,030 of the payment were provided.

WEST GARY LIGHTHOUSE CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 West Gary 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. Based upon the minutes, we could not determine 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 four 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)
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" through the 2006-2007 school year. Transactions which were posted to the General fund originally, were "reclassified" to a grant fund. When the transactions are "reclassified" the corresponding check numbers are not indicated in the ledgers. 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.

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.

WEST GARY LIGHTHOUSE CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 received by the School Corporation from East Chicago 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)

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 including the amounts that were withheld from the employee paychecks but not yet being paid when the School Corporation receives the information from the service provider. The School Corporation is posting negative disbursements to record the withholdings.

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)

REPORTS NOT FILED TIMELY

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

WEST GARY LIGHTHOUSE CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 School Corporations, Chapter 9)

PRESCRIBED FORMS

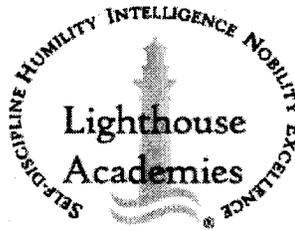
The School Corporation uses a receipt form which is not a prescribed or approved form for receipting school lunch and breakfast money, field trip collections, lost books, and collections from students for shirts and patches. The fees are subsequently grouped and a prescribed receipt is issued, but the prescribed receipt cannot be traced to the grouped receipts. Receipts for these collections were missing for the months August 2006 through March 2007.

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)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

WEST GARY LIGHTHOUSE CHARTER SCHOOL
EXIT CONFERENCE

The contents of this report were discussed on March 5, 2008, with Robert Stearns, Treasurer; Carla Ellis, Superintendent of Schools; Susan Burt, Accountant; Hilary Lewis, Principal; and Jennifer Hairson-Earls, Office Manager. The official response has been made a part of this report and may be found on pages 21 through 24.



West Gary 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 West Gary Lighthouse Charter School

Duplicate Receipts Issued

Audit comment: The school had overdrawn cash balances from the PCSP grant at year end. Cash fund balances may not be drawn below zero for any fund.

School's response: There is a single bank account which was never overdrawn. Funds are accounted for separately and in some cases inter fund transfers are required, albeit unrecorded.

The school also must follow federal regulations for cash management by not excessively drawing funds and holding cash for longer than three days. The Indiana Department of Education's (IDOE) procedure for drawing upon grants is based on estimated cash needs projected for up to twelve months in advance as submitted by the school. It is not a reimbursement method for payment. The school can from time to time adjust the cash flow based on grant or fund spending. With the lead time of the cash request and the timing of the receipt and processing of vendor invoices it is common for the school to either have too much cash at the end of month or a perceived negative balance in the fund.

In this particular case the school submitted three cash requests several months prior to need, so that it could pay its vendors for the educational materials with grant funds. The cash request was not processed by the IDOE. Each month that passed and no funds were transmitted, we communicated by phone and email to the IDOE grant administrator. We were unable to get a timely reply from the administrator who did not return calls or reply to e-mails. The failure of the IDOE to process a cash request forms as submitted by the school contributed to the expenses preceding the receipt of revenue. However, at no time was the school in financial problems as implied by the auditor.

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

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 services database. Various reports were prepared but none that met the equivalency of form 99B. As a control measure, the outside service company provided an SAS 70 letter that attested to the fact that its internal controls were examined and found to be acceptable. Internally, the school accountant prepares various account reconciliations each month 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.

Audit comment: The school did not obtain the signed form for an employee taking vacation in advance of its accrual, in accordance with the Lighthouse employee handbook.

School comment: In the future, the school will obtain the necessary form as required by the employee handbook.

School Lunch Verification

Audit comment: The school lunch verifications were not presented for audit.

School comment: In October the school verifies a 3% sample of applications received from parents who were determined to be eligible for the free lunch program. The school determined the sample size, sent the letters and determined the results. However the school was required to update the back of the application for the verification results for the 10 or so verification letters and did not. The school will update the applications for future verification results.

Contracts

Audit comment: The school made a payment advance to a vendor on its facility expansion without a contract in place.

School comment: The payment is question was reimbursed by a predevelopment grant. However, the school will have contracts in place for all future payments to vendors whenever necessary.

Accounts Payable Vouchers

Audit comment: Invoices for reimbursable items for expenses paid by Lighthouse Academies 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 have invoices attached to a voucher that paid Lighthouse Academies to support \$4,030.

School comment: The invoice was a recurring invoice for service and is available for review at any time. The school will take care to make sure all supporting documentation is attached to vouchers.

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.

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.

Reports not filed timely

Audit comment: TRF quarterly reports were filed and paid late.

School comment: The school will review its system for timely filing and payment of future quarterly reports.

Prescribed Forms

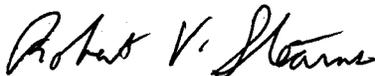
Audit comment: The school issued non-prescribed cash receipt vouchers for the sale of food, uniforms, field trips and other student collections.

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 school will issue prescribed forms for all future 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.

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,
West Gary Lighthouse Charter School