

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

AUDIT REPORT  
OF  
WEST GARY LIGHTHOUSE CHARTER SCHOOL  
LAKE COUNTY, INDIANA  
July 1, 2007 to June 30, 2009



**FILED**

03/30/2010



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robert Stearns	07-01-07 to 06-30-10
Superintendent of Schools	Carla Ellis Kimberlee Sia (Interim)	07-01-07 to 12-01-09 12-01-09 to 06-30-10
President of the School Board	Michael Ronan	07-01-07 to 06-30-10



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the West Gary Lighthouse Charter School (School Corporation), as of and for the years ended June 30, 2008 and 2009, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2008 and 2009, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 3, 2010, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

March 3, 2010



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the West Gary Lighthouse Charter School (School Corporation), as of and for the years ended June 30, 2008 and 2009, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated March 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Finding 2009-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider Finding 2009-1 to be a material weakness.

Compliance and Other Matters

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

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 3, 2010

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For the Year Ended June 30, 2008

<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	\$ 1,914,279	\$ -	\$ 50,749	\$ (1,863,530)
Support services	1,342,843	12,633	225,653	(1,104,557)
Noninstructional services	417,522	-	-	(417,522)
Facilities acquisition and construction	1,007,758	-	-	(1,007,758)
Debt service	131,558	-	-	(131,558)
Nonprogrammed charges	<u>3,208</u>	<u>-</u>	<u>-</u>	<u>(3,208)</u>
Total governmental activities	<u>\$ 4,817,168</u>	<u>\$ 12,633</u>	<u>\$ 276,402</u>	<u>(4,528,133)</u>
General receipts:				
Property taxes				948,029
Other local sources				167,296
State aid				2,055,601
Bonds and loans				425,776
Grants and contributions not restricted to specific programs				712,196
Investment earnings				<u>10,035</u>
Total general receipts				<u>4,318,933</u>
Change in net assets				(209,200)
Net assets - beginning				<u>402,885</u>
Net assets - ending				<u>\$ 193,685</u>
<u>Assets</u>				
Cash and investments				<u>\$ 193,685</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 193,685</u>

The notes to the financial statements are an integral part of this statement.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				Net (Disbursement) Receipts and Changes in Net Assets
Instruction	\$ 2,312,576	\$ -	\$ 72,827	\$ (2,239,749)
Support services	1,571,730	21,854	367,504	(1,182,372)
Noninstructional services	325,039	-	-	(325,039)
Facilities acquisition and construction	1,152,908	-	-	(1,152,908)
Debt service	517,061	-	-	(517,061)
Nonprogrammed charges	613	-	-	(613)
Total governmental activities	\$ 5,879,927	\$ 21,854	\$ 440,331	(5,417,742)
General receipts:				
Property taxes				1,190,279
Other local sources				118,033
State aid				3,240,150
Bonds and loans				644,836
Grants and contributions not restricted to specific programs				888,101
Investment earnings				1,512
Total general receipts				6,082,911
Change in net assets				665,169
Net assets - beginning				193,685
Net assets - ending				\$ 858,854
 <u>Assets</u>				
Cash and investments				\$ 858,854
 <u>Net Assets</u>				
Unrestricted				\$ 858,854

The notes to the financial statements are an integral part of this statement.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
STATEMENT 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, 2008

	General	Title I 06/07	Public Charter School Program	Other	Totals
<b>Receipts:</b>					
Local sources	\$ 1,137,197	\$ -	\$ -	\$ 796	\$ 1,137,993
State sources	2,145,694	-	-	16,282	2,161,976
Federal sources	-	195,609	293,900	392,714	882,223
Temporary loans	425,776	-	-	-	425,776
<b>Total receipts</b>	<b>3,708,667</b>	<b>195,609</b>	<b>293,900</b>	<b>409,792</b>	<b>4,607,968</b>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	1,356,557	270,987	204,015	82,720	1,914,279
Support services	1,189,612	67,408	10,457	75,366	1,342,843
Noninstructional services	230,417	-	-	187,105	417,522
Facilities acquisition and construction	961,140	-	46,618	-	1,007,758
Debt services	131,558	-	-	-	131,558
Nonprogrammed charges	3,208	-	-	-	3,208
<b>Total disbursements</b>	<b>3,872,492</b>	<b>338,395</b>	<b>261,090</b>	<b>345,191</b>	<b>4,817,168</b>
Excess (deficiency) of receipts over disbursements	(163,825)	(142,786)	32,810	64,601	(209,200)
<b>Other financing sources (uses):</b>					
Transfers in	-	67,551	-	-	67,551
Transfers out	-	-	-	(67,551)	(67,551)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>67,551</b>	<b>-</b>	<b>(67,551)</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(163,825)	(75,235)	32,810	(2,950)	(209,200)
Cash and investments - beginning	308,159	105,662	(10,936)	-	402,885
Cash and investments - ending	<u>\$ 144,334</u>	<u>\$ 30,427</u>	<u>\$ 21,874</u>	<u>\$ (2,950)</u>	<u>\$ 193,685</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	<u>\$ 144,334</u>	<u>\$ 30,427</u>	<u>\$ 21,874</u>	<u>\$ (2,950)</u>	<u>\$ 193,685</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	<u>\$ 144,334</u>	<u>\$ 30,427</u>	<u>\$ 21,874</u>	<u>\$ (2,950)</u>	<u>\$ 193,685</u>

The notes to the financial statements are an integral part of this statement.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
STATEMENT 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, 2009

	General	Title I 06/07	Public Charter School Program	Other	Totals
<b>Receipts:</b>					
Local sources	\$ 1,331,678	\$ -	\$ -	\$ -	\$ 1,331,678
State sources	3,385,287	-	-	872	3,386,159
Federal sources	-	271,758	131,100	779,565	1,182,423
Temporary loans	644,836	-	-	-	644,836
<b>Total receipts</b>	<b>5,361,801</b>	<b>271,758</b>	<b>131,100</b>	<b>780,437</b>	<b>6,545,096</b>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	1,689,063	157,444	143,883	322,186	2,312,576
Support services	1,280,073	69,981	9,091	212,585	1,571,730
Noninstructional services	27,239	-	-	297,800	325,039
Facilities acquisition and construction	1,152,908	-	-	-	1,152,908
Debt services	517,061	-	-	-	517,061
Nonprogrammed charges	613	-	-	-	613
<b>Total disbursements</b>	<b>4,666,957</b>	<b>227,425</b>	<b>152,974</b>	<b>832,571</b>	<b>5,879,927</b>
Excess (deficiency) of receipts over disbursements	694,844	44,333	(21,874)	(52,134)	665,169
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	74,760	74,760
Transfers out	-	(74,760)	-	-	(74,760)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(74,760)</b>	<b>-</b>	<b>74,760</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	694,844	(30,427)	(21,874)	22,626	665,169
Cash and investments - beginning	144,334	30,427	21,874	(2,950)	193,685
Cash and investments - ending	<u>\$ 839,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,676</u>	<u>\$ 858,854</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	<u>\$ 839,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,676</u>	<u>\$ 858,854</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	<u>\$ 839,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,676</u>	<u>\$ 858,854</u>

The notes to the financial statements are an integral part of this statement.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
 STATEMENT OF CASH AND INVESTMENT BALANCES  
 FIDUCIARY FUNDS  
 For the Year Ended June 30, 2009

	Agency Funds
Cash and investment fund balance - ending	\$ 594
Net assets:	
Cash and investments	\$ 594
Total net assets - cash and investment basis held in trust	\$ 594

The notes to the financial statements are an integral part of this statement.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: West Gary Lighthouse Charter School

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements

Fund financial statements 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, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 06/07 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.

The public charter school 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.

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

Additionally, the School Corporation reports the following fund type:

Agency funds account for assets held by the School Corporation as an agent for employee payroll withholdings and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and fiduciary fund financial statements 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 statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements 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 statements.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Normally, property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in 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 may become delinquent if not paid by May 10 and November 10, respectively.

3. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

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

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
2. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity, if any, is eliminated or reclassified in the government-wide financial statements as follows:

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis. The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Cash and Investment Balance Deficits

At December 31, 2008 and 2009, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as authorized by state statute:

Fund	2008	2009
Title II	\$ 18,687	\$ -
School Lunch	-	2,606
Special Education	-	20,028

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2009, the School Corporation had deposit balances in the amount of \$894,516.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2008 and 2009, were as follows:

Transfer From	Transfer To	2008	2009
Other governmental funds	Title I FY 06/07	\$ 67,551	\$ -
Title I FY 06/07	Other governmental funds	-	74,760
Totals		\$ 67,551	\$ 74,760

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

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Related Party Transactions

West Gary Lighthouse Charter School's organizer is Lighthouse Academies of Indiana, Inc. (LAI), a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. LAI is the organizer and governing body of five charter schools in Indiana. LAI has entered into a service agreement with Lighthouse Academies, Inc. (LHA), a not-for-profit organization incorporated in the State of Delaware to provide educational, managerial, legal, and financial services to the school.

During the period for which financial statements are presented, the School Corporation had material transactions with LAI and LHA, who provides management and financial accounting services. Payments for these services for the school years ended June 30, 2008 and 2009, were in the amounts of \$335,328, and \$406,336, respectively.

The School Corporation has also entered into a service agreement with Charter Facilities Management, LLC (formerly Lighthouse Facilities Management, LLC) an affiliate of LHA for maintenance of the school facilities. Payments for these services for the school years ended June 30, 2008 and 2009, totaled \$62,699 and \$56,331, respectively.

In 2008, the school facility was purchased by West Gary Lighthouse Facility, LLC, an organization affiliated with Lighthouse Academies, Inc. A lease agreement for the rental of the facilities was entered into by the School Corporation with West Gary Lighthouse Facility, LLC.

During the period for which financial statements are presented, the School Corporation had material transactions with West Gary Lighthouse Facilities, LLC in relation to the lease of the school building. The School Corporation remitted \$71,511 and \$136,887 as of June 30, 2008 and 2009, respectively, for rent to West Gary Lighthouse Facilities, LLC.

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

C. Pension Plan

The School Corporation makes matching contributions of up to 4% of the employee's income to a 403(b) retirement plan. The 403(b) retirement plan allows employees to make contributions up to limits established by the Internal Revenue Service. The employee chooses the investment options provided by the plan administrator. All 403(b) Retirement Plan contributions to the plan, plus any earnings they generate, are vested 100%.

D. Reassessment and Property Taxes

Property tax rates and levies were not established by the Indiana Department of Local Government Finance as of February 15, 2008 or 2009, as required by statute due to the continued delay caused in the completion of the reassessment of Lake County. The final settlement of taxes which were to be distributed to the school corporation as of December 31, 2007 and 2008, were not distributed until March 2008 and 2009, respectively. Starting January 1, 2009, the School Corporation's General Fund was no longer supported by property taxes as the State of Indiana began funding the School Corporation's General Fund.

E. Operating Leases

On January 7, 2008, the School Corporation entered into a lease agreement for a school facility with West Gary Lighthouse Facility, LLC, an affiliate of Lighthouse Academies, Inc. The lease agreement is effective until June 30, 2018, with renewal options. The annual rental payments are \$689,665.64, payable in monthly installments of \$57,467.97. The lease also requires the School Corporation to make monthly payments of \$10,000 to West Gary Lighthouse Facility, LLC for operating expenses. If the operating expenses exceed the \$10,000 monthly charge, the School Corporation is required to reimburse West Gary Lighthouse Facility, LLC for the excess; however, if the operating expenses are less than the \$10,000, then the School Corporation may deduct that amount from the following month's payment. The School Corporation also pays from \$1,000 to \$5,000 per month, based upon the lease period, to the West Gary Lighthouse Facility, LLC to be deposited into a Replacement Reserve Account.

By terms of the lease agreement the School Corporation is responsible for operating expenses, maintenance, repairs, utilities, and insurance.

The School Corporation also leases textbooks, furniture, and equipment from Lighthouse Academies, Inc. Lease payments are made quarterly.

F. Subsequent Events

State Assistance

Due to budget shortfalls state-wide, the State is reducing the funding school corporations will receive beginning January 1, 2010. The School Corporation estimates its funding will be reduced by approximately \$207,000 for the calendar year 2010; however, the State is providing a Restoration Grant of \$66,000.

Federal Financial Assistance – ARRA

The School Corporation was awarded American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund – Education State Grant funds in the amount of \$382,951. As of December 31, 2009, the School Corporation received and expended all of the funds received.

WEST GARY 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, 2008

	School Lunch	Early Intervention Grant	Title I FY 07/08	Title II	Totals
<b>Receipts:</b>					
Local sources	\$ 796	\$ -	\$ -	\$ -	\$ 796
State sources	545	15,737	-	-	16,282
Federal sources	<u>185,764</u>	<u>-</u>	<u>200,450</u>	<u>6,500</u>	<u>392,714</u>
<b>Total receipts</b>	<u>187,105</u>	<u>15,737</u>	<u>200,450</u>	<u>6,500</u>	<u>409,792</u>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	-	-	82,720	-	82,720
Support services	-	-	50,179	25,187	75,366
Noninstructional services	<u>187,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,105</u>
<b>Total disbursements</b>	<u>187,105</u>	<u>-</u>	<u>132,899</u>	<u>25,187</u>	<u>345,191</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>15,737</u>	<u>67,551</u>	<u>(18,687)</u>	<u>64,601</u>
<b>Other financing sources (uses):</b>					
Transfers out	<u>-</u>	<u>-</u>	<u>(67,551)</u>	<u>-</u>	<u>(67,551)</u>
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(67,551)</u>	<u>-</u>	<u>(67,551)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>-</u>	<u>15,737</u>	<u>-</u>	<u>(18,687)</u>	<u>(2,950)</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 15,737</u>	<u>\$ -</u>	<u>\$ (18,687)</u>	<u>\$ (2,950)</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	<u>\$ -</u>	<u>\$ 15,737</u>	<u>\$ -</u>	<u>\$ (18,687)</u>	<u>\$ (2,950)</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	<u>\$ -</u>	<u>\$ 15,737</u>	<u>\$ -</u>	<u>\$ (18,687)</u>	<u>\$ (2,950)</u>

WEST GARY 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, 2009

	School Lunch	Early Intervention Grant	Title I FY 08/09	Special Education	Title II	Totals
Receipts:						
State sources	\$ 872	\$ -	\$ -	\$ -	\$ -	\$ 872
Federal sources	294,322	-	235,659	166,067	83,517	779,565
Total receipts	295,194	-	235,659	166,067	83,517	780,437
Disbursements:						
Current:						
Instruction	-	15,737	120,354	186,095	-	322,186
Support services	-	-	161,630	-	50,955	212,585
Noninstructional services	297,800	-	-	-	-	297,800
Total disbursements	297,800	15,737	281,984	186,095	50,955	832,571
Excess (deficiency) of receipts over disbursements	(2,606)	(15,737)	(46,325)	(20,028)	32,562	(52,134)
Other financing sources (uses):						
Transfers in	-	-	74,760	-	-	74,760
Total other financing sources (uses)	-	-	74,760	-	-	74,760
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,606)	(15,737)	28,435	(20,028)	32,562	22,626
Cash and investments - beginning	-	15,737	-	-	(18,687)	(2,950)
Cash and investments - ending	\$ (2,606)	\$ -	\$ 28,435	\$ (20,028)	\$ 13,875	\$ 19,676
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ (2,606)	\$ -	\$ 28,435	\$ (20,028)	\$ 13,875	\$ 19,676
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	\$ (2,606)	\$ -	\$ 28,435	\$ (20,028)	\$ 13,875	\$ 19,676

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2008

	<u>Teachers' Retirement</u>	<u>Public Employee's Retirement</u>	<u>Medical</u>	<u>Tax Clearing</u>	<u>Totals</u>
Additions:					
Agency fund additions	\$ 5,060	\$ 9,797	\$ 27,911	\$ 172,998	\$ 215,766
Deductions:					
Agency fund deductions	<u>5,060</u>	<u>9,797</u>	<u>27,911</u>	<u>172,998</u>	<u>215,766</u>
Excess (deficiency) of total additions over total deductions	-	-	-	-	-
Cash and investment fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2009

	<u>Teachers' Retirement</u>	<u>Public Employee's Retirement</u>	<u>Medical</u>	<u>403B/Roth</u>	<u>Flexible Spending</u>	<u>Tax Clearing</u>	<u>Totals</u>
Additions:							
Agency fund additions	\$ 8,361	\$ 15,404	\$ 55,157	\$ 54	\$ 540	\$ 402,689	\$ 482,205
Deductions:							
Agency fund deductions	<u>8,361</u>	<u>15,404</u>	<u>55,157</u>	-	-	<u>402,689</u>	<u>481,611</u>
Excess (deficiency) of total additions over total deductions	-	-	-	54	540	-	594
Cash and investment fund balance - beginning	-	-	-	-	-	-	-
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 540</u>	<u>\$ -</u>	<u>\$ 594</u>

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 June 30, 2009

The School Corporation 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 Loans	\$ 2,214,584	\$ 213,934
Revolving Loan Program	<u>146,671</u>	<u>82,101</u>
Total governmental activities debt	<u>\$ 2,361,255</u>	<u>\$ 296,035</u>

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS AND CONDITION OF RECORDS

Control procedures are not in place to ensure financial reports agree or reconcile as of the close of a fiscal period. The Fund Report (Fund Ledger) activity did not always agree to the Revenue History (Ledger of Receipts) or to the Budget History (Ledger of Appropriations, Allotments, Encumbrances, Disbursements, and Balances). These records are maintained electronically, and as explained by School Corporation Officials if receipts or disbursements are posted for a current period prior to closing (printing a fund report) a prior period, that current period activity will be reported in the Fund Report for the prior period. School Corporation Officials indicated they keep a period open until the bank account is reconciled, so that any adjustment can be promptly posted to the period affected.

The School Corporation semiannually prepares a report of cash balances, receipts, and disbursements by fund, commonly referred to as Form 9. The Form 9 reports are then used to generate the financial statements presented for audit. Information reported on the Form 9 should agree to the financial records maintained by the School Corporation. Financial transactions posted to the various Title funds for the school year ended June 30, 2009, did not agree to the information reported on the Form 9. The ledgers indicated there were three Title I funds (one for each grant fiscal year i.e. Fy 06/07, 07/08, 08/09); however, the activity was reported in only two funds on the Form 9. Because all of the activity was reported, no audit adjustments were made.

The School Corporation uses multiple receipt books with multiple numerical sequences. Receipts in some instances are issued at the local school building and then again at the School Corporation Office. The duplicate receipts are not retained in the receipt books. The duplicates are removed from the book and attached to the posting detail (Revenue Transaction Edit) and to any remittance advices or other supporting documentation. Because more than one receipt series is in use and because the duplicate receipts are not retained in the receipt books, there is a lack of accountability over receipts.

The School Corporation does not always include fund names or numbers on claims paid which does not allow for verification that disbursements have been properly reviewed and classified to the appropriate fund. Additionally, after claims are posted, disbursements are frequently and subsequently reclassified to other funds.

The School Corporation has a service organization that provides payroll services. The payroll reports indicate employees are paid from various departments, but those departmental payroll reports do not correlate to the posted payroll disbursements either by fund or by an account within a fund. As with vendor disbursements, payroll disbursements are frequently and subsequently reclassified.

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)

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

AGENCY FUNDS

Additions and deductions are posted as credits and debits to the expenditures of the Agency Funds.

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.

An account on the form will also be prepared for each "Clearing Account" used by the school corporation. For example, for the federal tax payroll deductions, an account should be prepared showing "Clearing Account-Payroll Deductions" as the fund title, "920" as the fund number, "Federal Tax" as the source of receipt and "921" as the receipt account number. The total federal tax deductions for each payroll is entered in the "Receipts" column (921.1) when the payroll is posted. The check for transmittal of these funds to the proper payee is posted to the account in the disbursements column (921.2). Receipts to a clearing account increase the amount in the "Balance" column and disbursements from the account decrease the balance.

The clearing accounts are to be arranged in account number sequence in accordance with the chart of accounts and placed in the same binder with the Fund Ledger and Ledger of Receipts following the last fund and receipt account in the ledger. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

RECORD ACCESS

All of the records of the School Corporation are retained at offices in Framingham, Massachusetts. Records must be shipped to the audit location when the audit is begun. School Corporation Officials did not ensure the complete records requested were mailed. Numerous items were not shipped, but had to be requested for subsequent shipment or electronic transmission.

Access to public records is governed by IC 5-14-3. The official policy of the State is: "all persons are entitled to full and complete information regarding the affairs of government and the official acts of those who represent them as public officials and employees. Providing persons with the information is an essential function of a representative government and an integral part of the routine duties of public officials and employees, whose duty it is to provide the information." [IC 5-14-3-1] . . . Any person may inspect and copy the public records of a public agency during regular business hours. . . . [IC 5-14-3-3(a)] (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 11)

ERRORS ON ACCOUNTS PAYABLE VOUCHERS (CLAIMS)

Many of the accounts payable vouchers (claims) examined did not indicate the fund from which the disbursement should be posted.

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

Claims paid did not always have adequate detailed supporting documentation attached. Invoices for multiple Lighthouse Charter Schools are attached to claims. The invoices or claims did not include a detail of the amount due for each school or information as to how the amount paid was calculated.

Also, the governing board did not sign the claim dockets indicating the claims were approved. The minutes of the Board indicate the claims have been approved.

IC 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or invoice submitted to a governmental unit for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

DATA UNIVERSAL NUMBERING SYSTEM (DUNS)

The School Corporation has recently applied for, but has not yet received a DUNS number. The DUNS number is required by the Federal Government in submitting the Data Collection Form. The Data Collection Form reports the federal assistance expended.

We understand DUNS stands for "data universal numbering system." DUNS numbers are issued by Dun and Bradstreet (D&B) and consist of nine digits. Some institutions will also have what is known as "DUNS + 4," which is used to identify specific units in that institution.

We have been informed by Ms. Sandra R. Swab of the Office of Management and Budget (OMB) that at some point OMB would be asking for all entities that receive federal grants to have DUNS numbers. Therefore, we suggest that all School Corporations should obtain a DUNS number starting October 1. (The School Administrator and Uniform Compliance Guidelines, September, 2003)

OFFICIAL BOND

The Treasurer had a bond in the amount of \$190,000 to cover all five lighthouse charter schools in Indiana. The term of the bond was two years and coverage began on June 9, 2006. A new bond was not presented for audit. The bond was not recorded with the Lake County Recorder as required by statute.

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

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; and approved by the governing body of the school corporation. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds, IC 36-2-7-10. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

IC 20-26-4-5 states:

"For each school year commencing July 1, the treasurer of each governing body and the governing body's school corporation and a deputy treasurer, if so appointed, shall give a bond for the faithful performance of the treasurer's and deputy treasurer's duties written by an insurance company licensed to do business in Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of a deputy treasurer appointed as provided in section 1 of this chapter."

OVERDRAWN CASH BALANCES

The cash balance of the Title II Fund was overdrawn in the amount of \$18,687 at June 30, 2008, and the School Lunch Fund and the Special Education Fund were overdrawn in the amounts of \$2,606 and \$20,028 at June 30, 2009, 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)

AVERAGE DAILY MEMBERSHIP (ADM) - RECORDS

The School Corporation presented for audit the electronic support detailing all the students by grade for the ADM claimed by the School Corporation. However, the list of students certified by the Principal on the actual ADM date was not presented for audit for both school years.

IC 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."

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (The School Administrator and Uniform Compliance Guidelines, Volume 123, September 1993, and Volume 142, June 1998)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the West Gary Lighthouse Charter School (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2008 and 2009. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

As described in Finding 2009-3 and Finding 2009-4 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding cash management, program income, and reporting that are applicable to its Child Nutrition Cluster, Title I, Part A Cluster, and Charter Schools programs. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended June 30, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2009-2.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in Finding 2009-2, Finding 2009-3, and Finding 2009-4 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider Finding 2009-2, Finding 2009-3, and Finding 2009-4 to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 3, 2010

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2008 and 2009

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-08	Total Federal Awards Expended 06-30-09
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 51,746	\$ 99,127
National School Lunch Program	10.555		134,017	193,873
Summer Food Service Program for Children	10.559		-	1,321
			<u>185,763</u>	<u>294,321</u>
Total for federal grantor agency				
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010			
Allocation		07-9585	91,271	-
		08-9585	380,023	66,427
		09-9585	-	442,983
			<u>471,294</u>	<u>509,410</u>
Total for cluster				
Special Education - Grants to States	84.027			
Formula Grants		SY 2008-2009	-	186,095
Charter Schools	84.282		261,090	152,974
Improving Teacher Quality State Grants	84.367			
		07-9585	25,187	-
		08-9585	-	50,955
			<u>25,187</u>	<u>50,955</u>
Total for program				
Total for federal grantor agency			<u>757,571</u>	<u>899,434</u>
Total federal awards expended			<u>\$ 943,334</u>	<u>\$ 1,193,755</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the West Gary Lighthouse Charter School (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Federal Financial Assistance – ARRA

The School Corporation was awarded American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund – Education State Grant Funds in the amount of \$382,951. As of December 31, 2009, the School Corporation received and expended all of the funds received.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.282	Child Nutrition Cluster Title I, Part A Cluster Charter Schools

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2009-1, INTERNAL CONTROLS AND CONDITION OF RECORDS

Control procedures are not in place to ensure financial reports agree or reconcile as of the close of a fiscal period. The Fund Report (Fund Ledger) activity did not always agree to the Revenue History (Ledger of Receipts) or to the Budget History (Ledger of Appropriations, Allotments, Encumbrances, Disbursements, and Balances). These records are maintained electronically, and as explained by School Corporation Officials if receipts or disbursements are posted for a current period prior to closing (printing a fund report) a prior period, that current period activity will be reported in the Fund Report for the prior period. School Corporation Officials indicated they keep a period open until the bank account is reconciled, so that any adjustment can be promptly posted to the period affected.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The School Corporation semiannually prepares a report of cash balances, receipts, and disbursements by fund, commonly referred to as Form 9. The Form 9 reports are then used to generate the financial statements presented for audit. Information reported on the Form 9 should agree to the financial records maintained by the School Corporation. Financial transactions posted to the various Title funds for the school year ended June 30, 2009, did not agree to the information reported on the Form 9. The ledgers indicated there were three Title I funds (one for each grant fiscal year i.e. Fy 06/07, 07/08, 08/09); however, the activity was reported in only two funds on the Form 9.

The School Corporation uses multiple receipt books with multiple numerical sequences. Receipts in some instances are issued at the local school building and then again at the School Corporation Office. The duplicate receipts are not retained in the receipt books. The duplicates are removed from the book and attached to the posting detail (Revenue Transaction Edit) and to any remittance advices or other supporting documentation. Because more than one receipt series is in use and because the duplicate receipts are not retained in the receipt books, there is a lack of accountability over receipts.

The School Corporation does not always include fund names or numbers on claims paid which does not allow for verification that disbursements have been properly reviewed and classified to the appropriate fund. Additionally, after claims are posted, disbursements are frequently and subsequently reclassified to other funds.

The School Corporation has a service organization that provides payroll services. The payroll reports indicate employees are paid from various departments, but those departmental payroll reports do not correlate to the posted payroll disbursements either by fund or by an account within a fund. As with vendor disbursements, payroll disbursements are frequently and subsequently reclassified.

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)

We recommended that School Corporation Officials establish controls to ensure that financial reports agree to each other, or that a reconciliation made and retained for audit. A log should be maintained of the receipt book numbers issued for use and to whom the receipt books were issued. The duplicate copy of the receipt should be maintained in the receipt book as well as supporting documentation when provided. Fund names, numbers, and account numbers should be listed on the claims. Also, payroll reports should be designed to correlate to amounts posted to the financial records for payroll disbursements.

Section III – Federal Award Findings and Questioned Costs

FINDING 2009-2, ALLOWABLE COSTS CONTROLS AND COMPLIANCE

Federal Agencies: U.S. Department of Agriculture, U.S. Department of Education  
Pass-Through Agency: Indiana Department of Education  
Federal Programs: Child Nutrition Cluster, Title I, Part A Cluster, and Charter Schools  
CFDA Numbers: 10.553, 10.555, 10.559, 84.010, and 84.282  
Award Numbers: FY 2007-08, FY 2008-09, 07-9585, 08-9585, 09-9585

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The School Corporation is responsible for establishing and maintaining controls to ensure compliance that amounts paid from grant funds are allowable and properly allocated. Some of the controls are established by following the compliance guidelines established by the State Board of Accounts for School Corporations.

Payments to Vendors

Per guidelines established by the State Board of Accounts for School Corporations, accounts payable vouchers (claims) should include the fund number as well as the account from which a check is to be drawn. Additionally, claims are to have itemized vendor invoices attached, and claims for travel should indicate the nature of the travel. The School Corporation has not effectively implemented these controls, which has resulted in some expenditures not meeting the compliance requirements of the Child Nutrition Cluster programs.

Lighthouse Academies, Incorporated (LAI) is the management company for five Indiana charter schools. LAI staffed a shared employee who managed the food program. The employee was paid \$900 a month from West Gary Lighthouse Charter School. LAI was reimbursed \$3,600 on December 5, 2008, for August through November 2008 from the School Lunch Fund. The monthly internal auditor meal program salary benefits are listed on an invoice prepared by LAI, but the original invoices supporting those purchases are not attached to the claim. Therefore, the validity of the payment could not be verified.

Furthermore, numerous entries are made in the ledgers to reclassify disbursements from the General Fund to the Title I funds or from the Title I funds to the General Fund. Reclassifications in some instances are being made to eliminate duplicate postings of payroll as the payroll reports do not indicate from which fund employees are paid.

Payments to Employees

An outside service organization processes payroll for the School Corporation. Reports from the outside service organization indicate employees are paid from various departments; however the amounts posted for payroll to the Title I funds could not be verified to the departmental reports of payroll expenses per the outside service organization. A report prepared by the School Corporation in "Excel" (a commercially packaged spreadsheet software program) was provided to substantiate amounts posted for payroll to the Title I funds. The "Excel" spreadsheet showed the employees paid from the Title I funds, as well as the amounts. The spreadsheet, which documented payrolls by ending payroll periods, could not be verified to the individual postings of the Title I funds by payroll period. The spreadsheet totals materially agreed to postings to the Title I funds due to numerous reclassification entries and adjustments which are made to the Title I funds.

EDGAR § 80.20(b) Standards for financial management systems states in part:

- " . . . (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

We recommended that School Corporation Officials implement controls to ensure proper accountability of funds. Guidelines on accounts payable vouchers should be followed, and individuals whose salaries are to be paid from a specific fund or account should be designated on the payroll records and reports so a correlation exists. Each payroll should be posted based upon the payroll reports.

FINDING 2009-3, PROGRAM INCOME AND REPORTING

Federal Agencies: U.S. Department of Agriculture, U.S. Department of Education  
Pass-Through Agency: Indiana Department of Education  
Federal Programs: Child Nutrition Cluster, and Title I, Part A Cluster  
CFDA Numbers: 10.553, 10.555, 10.559, 84.010, and 84.282  
Award Numbers: FY 2007-08, FY 2008-09, 07-9585, 08-9585, 09-9585

The School Corporation in accordance with Federal and State guidelines maintains a separate fund (School Lunch Fund) to account for the financial activity of the School Breakfast and Lunch programs. The School Corporation does not charge a fee for meals served, so the School Corporation subsidizes the meal program from the General Fund; however, the subsidies are not posted to the School Lunch Fund. Revenues and expenses reported for the 2007-2008 school year exceeded receipts and disbursements posted to the School Lunch Fund by \$118,301. Revenues reported agreed to the School Lunch Fund receipts for the 2008-2009 school year, which excluded the subsidies or program income; however, expenses did not agree to the School Lunch Fund disbursements due to the inclusion of General Fund disbursements related to the meal program.

The School Corporation is required to complete quarterly and annual reports for each Title I project awarded. The School Corporation has filed these reports in a timely manner; however, 6 of the reports' expenditures listed did not agree to the School Corporation's Budget History Report expenditures for the applicable periods.

7 CFR 210.8(a) states in part:

"Internal controls. The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the school food authority;

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

comparisons of daily free, reduced price and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced price and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems."

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

EDGAR § 80.20 states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

We recommended that School Corporation officials include all receipts and disbursements related to the school meal programs in the School Lunch Fund, including recording the receipts for the General Fund subsidies for the paid and reduced priced meals.

FINDING 2009-4, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
Pass-Through Agency: Indiana Department of Education  
Federal Programs: Title I, Part A Cluster, and Charter Schools  
CFDA Numbers: 84.010, and 84.282  
Award Numbers: 07-9585, 08-9585, 09-9585

The School Corporation determines cash needs for the grant during the application process with the State of Indiana. A cash request schedule is determined and submitted to the State of Indiana at the beginning of the grant period based on anticipated monthly needs. School Corporation Officials are to ensure minimal time elapses between the receipt of funds requested and their subsequent disbursement. However, when actual grant activity does not occur as timely as expected, School Corporation Officials do not have procedures in place to ensure any month end grant balances plus the next scheduled grant drawdown does not exceed the monthly need.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

A review of the Title I Grant (Fund 411), from September 1, 2007 to July 30, 2008, indicated that 6 of 11 months during the 2007-2008 grant year had an excessive cash balance at month end which ranged from \$36,152 to \$89,041. Furthermore, the pass-through entity required quarterly report states: "Please reduce our next available distribution by." However, only one of the three quarterly reports reviewed indicated a reduction of the next available distribution.

A review of the Title I Grant (Fund 412), from September 1, 2008 to June 30, 2009, indicated that 5 of 9 months during the 2008-2009 grant year had an excessive cash balance at month end which ranged from \$47,153 to \$88,772. None of the quarterly reports reviewed for this grant period indicated a reduction of the next available distribution.

A review of the Charter School grant indicated that 14 of the 24 months during the two school years audited had excessive cash balances at the end of the month which ranged from \$32,373 to \$117,843.

EDGAR 80.20 (b):

"The financial management systems of other grantees and subgrantees must meet the following standards: . . .

- (7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

We recommended the School Corporation implement procedures to match their drawdown requests to the budgeted monthly expenditures, with the goal to minimize the amount of cash on hand at the end of the month.

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

# WEST GARY LIGHTHOUSE CHARTER SCHOOL

## A-133 AUDIT CORRECTIVE ACTION PLAN FY08 and FY09

### FINDING NO. 2009-1 INTERNAL CONTROLS

Finding 1: Fund Report activity did not always agree to the Revenue History or the Budget History and as a result control procedures are not in place to ensure financial reports agree or reconcile as of the close of a fiscal period

School's response: There is a report called the fund report that is date sensitive and cannot be printed for past periods. Although this report is date sensitive to posting of transactions of a subsequent month before a month is "closed" it does not lessen the ability to run fund transactions for receipts and disbursements for any fund and any period. As such, we feel control is in place to run transactions under any program for any period of time. We understand the limitation of the accounting software and as such have reorganized the finance department and have placed added procedures when closing the month to include printing and saving the fund report before posting transactions of a subsequent month and to preclude prior period journal entries that may affect balances among funds. The importance of this fund report is to allow a third party such as an auditor to test balances and totals reported with all state and federal programs that are reported at a minimum on a quarterly basis.

Finding 2: The school's accounting system had three fund codes for Title I while it reported two fund codes on Form 9. Although all of the transaction were accounted for in total, this indicated to the auditor that the financial activity was not being reviewed or reconciled to the financial records.

School's response: The school creates a different fund code for each Title I year to account for transactions separately. The form 9 data is transmitted electronically and the Indiana Department of Education (IDOE) sometimes makes adjustments to fund numbers being reported. This may occur if an incorrect or outdated fund code is used. As of December 31, 2007, the state also changed in its chart of accounts from a three digit fund code to a four digit fund code and there were implementation errors in establishing the new four digit fund code acceptable to the IDOE. The school will better monitor its fund code setup for each grant year.

Finding 3: The school did not retain copies of duplicate receipts and used more than one series of receipt forms with one set at the school and another at the corporate finance office.

School's comment The school uses the prescribed form for receipts as required by the State Board of Accounts (SBOA). The forms are in a book with each form in triplicate. One copy goes to the customer, one copy goes to the accounting department and the third copy stays in the book. The SBOA auditor was not given the books for audit and as a result assumed that copies were not retained in booklet form. We did have the booklets containing the copies of receipts and we will provide those books to the SBOA at our next review. For the comment that there are at least two different series of numbers, we will review the current system and make the necessary changes once we deem that the change will not cause a significant deficiency in

another part of the accounting system, such as delays in month end closings. Currently, the school prepares receipts when they receive money from students for activities such as field trips, sale of uniforms, and sometimes for wires of money from state funding. The corporate office has prepared receipts for all other state direct deposits of money that the school was not notified as to its source, such as Title I, and ARRA funding. With the goal of closing a month as quickly and efficiently as possible the corporate office had prepared receipts for these direct deposits from the state or miscellaneous receipts from the bank such as interest income. We will look to centralize the receipting responsibility with one person for all deposits including cash deposits from students or direct deposits from the state.

Finding 4: The school does not always include the fund name or number on claims.

School's comment: In April 2009, we reorganized the accounting department and modification to the voucher claim form to allow for a better review of the claims including the correct fund code chargeable. The review process allows us to make corrections before the claim is posted to the fund. Previously the claims did not contain the fund name or code but they are now present on all claims, with edits made on the claim for any correction. Feedback is provided to the school by the accountant on any changes to fund codes.

Finding 5 The school makes use of a payroll service but the departmental reports do not correlate with posted payroll transactions.

School's comment The school disregards the departmental reports provided by the payroll service due limitations in those reports. The school has a system for recording payroll from payroll registers provided by the payroll service to the accounting system. That system includes maintaining a database for the school year of employee payroll records. The database allows for preparing payroll entries and reporting by fund and department that agree to accounting system accounts. The database system provides greater flexibility in managing and reporting payroll.

#### FINDING NO. 2009-2 ALLOWABLE COSTS CONTROLS AND COMPLIANCE

Finding 1: Payments to vendors did not have adequate support, specifically the meals auditor paid to LAI under the Child Nutrition programs.

School's comment and corrective action: In FY09 the Organizer for the five Lighthouse schools located in Indiana signed an agreement to hire a shared employee for the purpose of better managing its food program. Each school agreed to share equally the cost of this employee as the amount of work was deemed to be consistent among the five schools.

Finding 2 The school made numerous reclassifications between Title I and General Fund.

School's comment and corrective action: After review and reconciliation of the ledgers to subsidiary reports used to monitor the program, reclassification of expenses were necessary to account for the misposting of an employee or vendor charge that was incorrectly coded to the wrong fund code. Changes to the accounting department and grant monitoring process and

education of school administrative employees has improved the accuracy of the original classification of expenditures.

Finding 3 The school used Excel to monitor its Title I program for payroll and the ledgers contained reclassifications to agree with these spreadsheets.

School's comment and corrective action: The school maintains an excel database each school year of all payroll. The database is reconciled monthly in total to the financial records. The database is reviewed with the school personnel to account for proper setup and classification of fund, expenditure and object codes. There is an audit trail from the ledgers, including Title I to the journal entry, to the excel database and to the payroll report provided by the outside payroll service.

#### FINDING NO. 2009-3 PROGRAM INCOME AND REPORTING

Finding 1 The school does not charge a fee to students. Grantees are encouraged to earn income to defray program costs.

School comment: The school has a high percentage of free and reduced students. The school has determined that the cost to administer collection of money from students would be equal to or greater than the money actually collected. Administrative labor costs would increase to cover the time needed to issue receipt vouchers, record receipt vouchers, collect and deposit cash, and follow up on money owed from families. The school will record as a subsidy from the general fund the income forgone from students. The school's program income from the meals program is capped and will not cover the program expenses. A subsidy from the general fund has been necessary to provide hot meals to students.

Finding 2 The school lunch program was subsidized by the general fund and those subsidies were not posted as revenue and expenses in the ledgers.

School comment: The school recorded inter fund transfers as fund transfers in its accounting system rather than as actual receipts and disbursements. Recording the subsidy as a fund transfer was our understanding because there is a single checking account and there was not an actual transfer of cash. Due to the timing of receivables and payables it is common for inter fund borrowing or subsidies to occur. The school will set up inter fund transfer revenue accounts and expense accounts and record as such record receipts and disbursements for the transfer of funds to and from the general fund.

Finding 3 The annual report filed with the Indiana Department of Education's Division of School and Community Nutrition Services did not agree with the ledgers for revenue and disbursements.

School comment: The school prepares the annual report on an accrual basis and the ledgers are on a cash basis. The school will now prepare the annual report from the cash basis ledgers and account for accrual basis adjustments on the report.

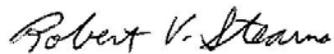
#### FINDING NO. 2009-4 CASH MANAGEMENT

Finding: The school drawdown requests that were filled out at the start of a federal program in anticipation of cash needs exceeded the following month's disbursements.

School's comment: The school follows the system that is in place at the time by the Indiana Department of Education (IDOE). A better system is currently in place for FY10 than what was in place for prior years. The IDOE now monitors the cash management for many of its programs on a monthly basis where the school can request changes to its future cash draws in response to changes to its needs.

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

WEST GARY LIGHTHOUSE CHARTER SCHOOL  
EXIT CONFERENCE

The contents of this report were electronically mailed on March 3, 2010, with subsequent phone discussions on the comments with Robert Stearns, Treasurer; and Michael Ronan, President of the School Board. The official response has been made a part of this report and may be found on pages 44 through 48.

March 14, 2010

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**

INTERNAL CONTROLS AND CONDITION OF RECORDS

Audit comment 1:

Finding: Fund Report activity did not always agree to the Revenue History or the Budget History and as a result control procedures are not in place to ensure financial reports agree or reconcile as of the close of a fiscal period

School's response: There is a report called the fund report that is date sensitive and cannot be printed for past periods. Although this report is date sensitive to posting of transactions of a subsequent month before a month is "closed" it does not lessen the ability to run fund transactions for receipts and disbursements for any fund and any period. As such, we feel control is in place to run transactions under any program for any period of time. We understand the limitation of the accounting software and as such have reorganized the finance department and have placed added procedures when closing the month to include printing and saving the fund report before posting transactions of a subsequent month and to preclude prior period journal entries that may affect balances among funds. The importance of this fund report is to allow a third party such as an auditor to test balances and totals reported with all state and federal programs that are reported at a minimum on a quarterly basis.

Audit comment 2:

Finding: The school's accounting system had three fund codes for Title I while it reported two fund codes on Form 9. Although all of the transaction were accounted for in total, this indicated to the auditor that the financial activity was not being reviewed or reconciled to the financial records.

School's response: The school creates a different fund code for each Title I year to account for transactions separately. The form 9 data is transmitted electronically and the Indiana Department of Education (IDOE) sometimes makes adjustments to fund numbers being reported. This may occur if an incorrect or outdated fund code is used. As of December 31, 2007, the state also changed in its chart of accounts from a three digit fund code to a four digit fund code and there were implementation errors in establishing the new four digit fund code acceptable to the IDOE. The school will better monitor its fund code setup for each grant year.

### Audit comment 3

Finding: The school did not retain copies of duplicate receipts and used more than one series of receipt forms with one set at the school and another at the corporate finance office.

School's comment The school uses the prescribed form for receipts as required by the State Board of Accounts (SBOA). The forms are in a book with each form in triplicate. One copy goes to the customer, one copy goes to the accounting department and the third copy stays in the book. The SBOA auditor was not given the books for audit and as a result assumed that copies were not retained in booklet form. We did have the booklets containing the copies of receipts and we will provide those books to the SBOA at our next review. For the comment that there are at least two different series of numbers, we will review the current system and make the necessary changes once we deem that the change will not cause a significant deficiency in another part of the accounting system, such as delays in month end closings. Currently, the school prepares receipts when they receive money from students for activities such as field trips, sale of uniforms, and sometimes for wires of money from state funding. The corporate office has prepared receipts for all other state direct deposits of money that the school was not notified as to its source, such as Title I, and ARRA funding. With the goal of closing a month as quickly and efficiently as possible the corporate office had prepared receipts for these direct deposits from the state or miscellaneous receipts from the bank such as interest income. We will look to centralize the receipting responsibility with one person for all deposits including cash deposits from students or direct deposits from the state.

### Audit comment 4

Finding: The school does not always include the fund name or number on claims.

School's comment: In April 2009, we reorganized the accounting department and modification to the voucher claim form to allow for a better review of the claims including the correct fund code chargeable. The review process allows us to make corrections before the claim is posted to the fund. Previously the claims did not contain the fund name or code but they are now present on all claims, with edits made on the claim for any correction. Feedback is provided to the school by the accountant on any changes to fund codes.

### Audit comment 5

Finding The school makes use of a payroll service but the departmental reports do not correlate with posted payroll transactions.

School's comment The school disregards the departmental reports provided by the payroll service due limitations in those reports. The school has a system for recording payroll from payroll registers provided by the payroll service to the accounting system. That system includes maintaining a database for the school year of employee payroll records. The database allows for preparing payroll entries and reporting by fund and department that agree to accounting system accounts. The database system provides greater flexibility in managing and reporting payroll.

## AGENCY FUNDS

### Audit comment 6:

Finding: Clearing accounts for employee withholdings were not set up and used properly. Credits were recorded as part of payroll expenditure transactions. Clearing sub accounts for receipts and disbursements were not used.

School comment: The school does not prepare its own payroll through the accounting system, it uses a payroll service. The current SBOA manual goes under the assumptions that school corporations prepare payroll checks through the accounting system and employee withholdings are reported as receipts. The school uses a payroll service and will review its current practice of recording payroll to allow for the proper use of clearing accounts. Currently the employee withholdings were recorded as credits in the payroll entry that was put through with the disbursements. The school will look to record as a revenue transaction to the proper clearing account all employee withholdings.

#### RECORD ACCESS

##### Audit comment 7:

Finding: All of the records are retained at office in Framingham, MA. When the audit begun records were not available locally and had to be shipped. Not all of the records requested were immediately shipped and had to be subsequently requested.

School's comment: The school believes it has complied with its responsibility for access to public records under IC 5-14-3. The school has not denied or prevented access to any person or governmental representative of any of its records and has always acted with the greatest transparency. Records being offsite or stored electronically is necessary due to space at the schools. Location of records was not a finding in prior year SBOA comments when records were stored at Indianapolis IN and were also shipped to be made available. The SBOA changed Gary Lighthouse's audit cycle to coincide with East Chicago and West Gary Lighthouse schools and as a result Gary Lighthouse underwent a three year audit. The amount of records requested for examination by the SBOA without any prior notification was seven years worth of records (two years of records for two schools and three years of records for a third school). The FY08 records were shipped immediately after requested although there were delays due to school closings because of severe winter weather. Those records were received within a week of the request date. In addition to the SBOA audit that the schools undergo every two years, they are audited by a Certified Public Accountant (CPA) as required by lending institutions and authorizers. The FY09 records that were still being examined by the CPA became available and were shipped to the SBOA one week after the FY08 records were shipped. We believe we have met our responsibility to allow access to public records.

#### ACCOUNTS PAYABLE VOUCHER CLAIMS

##### Audit comment 8

Finding Many of the accounts payable voucher forms (claims) tested did not indicate the fund from which the disbursement should be posted.

School's comment: In April 2009, we reorganized the accounting department and modification to the voucher claim form to allow for a better review of the claims including the correct fund code chargeable. The review process allows us to make corrections before the claim is posted to the fund. Previously the claims did not contain the fund name or code but they are now present on all claims,

with edits made on the claim for any correction. Feedback is provided to the school by the accountant on any changes to fund codes.

Audit comment 9:

Finding: Claims did not always have adequate supporting documentation.

School comment: The school is provided ongoing training as to what documentation should be attached to support a claim. With changes to the accounting department, fewer instances of missing or incomplete documentation have occurred.

Audit comment 10

Finding: The governing board is not signing the claim dockets indicating the claims were approved.

School comment: The SBOA provided a memo to all charter schools in June 2006 that the SBOA's internal control recommendation with respect to payment of claims is that the board approve the claims prior to payment but due to the unique nature of statutory provisions pertaining to charter schools the SBOA would not take audit exception to claims being retroactively approved, on at least an annual, semi-annual, or quarterly basis and determined by the charter school board (Bruce Hartman, State Board of Accounts memorandum June 2006 to all charter schools). The school presents the claims to the board using the SBOA accounts payable docket. The docket is reviewed and approved by the board on a monthly basis. The motion to approve and subsequent approval is stated in the minutes with mention of the total amount approved that agrees to the detailed docket. In the SBOA audit of fy06 and fy07, the SBOA finding on this process was that we needed to add sufficient detail to the board minutes that it is clear what docket was presented to the board and approved. This was done for fy08 and fy09 minutes. The school will look to add board signatures to the dockets.

DATA UNIVERSAL NUMBERING SYSTEM (DUNS)

Audit comment 11

Finding: The school applied for but has not received a DUNS number

School comment: The school will obtain its DUNS number.

OFFICIAL BOND

Audit comment 12

Finding: The renewal for the treasurer's bond was not provided for audit nor was the bond filed with the Lake County Recorder.

School comment: The treasurer obtained a public official bond or treasurer's bond for treasury services for the five Lighthouse charter schools located in Indiana and organized under the single Organizer, Lighthouse Academies of Indiana, Inc. The treasurer's bond that renewed June 9, 2008 and now expires on June 9, 2010 increased from \$190,000 to \$300,000. Official bond documents are

not automatically sent by the insurance company upon renewal. The original treasurer bonds have been requested and will be filed with the proper officials at both Lake County and Marion County.

#### OVERDRAWN CASH BALANCES

##### Audit comment 13:

Finding: The school had overdrawn Title II fund, School Lunch Fund and the Special Education fund. Cash balances may not be drawn below zero.

School's response: The school will monitor fund balances being in the negative and initiate transfers from general funds once approved by board. Although the charter school uses one checking account for all funds, it understands the idea of prohibition on negative cash balances on an individual fund basis. In some cases, negative balances are the result of the draw down system of the IDOE. When funds requested are not received a negative balance is created. This was the case with Title II. The school has already begun to record inter fund transfers whenever the general fund subsidized the lunch program or special education fund.

#### AVERAGE DAILY MEMBERSHIP (ADM)

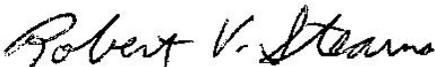
##### Audit comment 14:

Finding: The school presented an uncertified list of students as evidence to support ADM

School's response: The school follows the requirements of the Indiana Department of Education in filing its ADM each year. The school filed the list of students electronically and a signed paper printout on time to the IDOE. The school did not retain a signed paper copy on site. The school will retain signed copies of submitted ADM reports on site from now on.

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