

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

AUDIT REPORT
OF
GARY LIGHTHOUSE CHARTER SCHOOL
LAKE COUNTY, INDIANA
July 1, 2008 to June 30, 2009



FILED
03/31/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robert Stearns	07-01-06 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	07-01-06 to 06-30-10



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

TO: THE OFFICIALS OF THE 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 Gary Lighthouse Charter School (School Corporation), as of and for the year ended June 30, 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, 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 4, 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 the Schedule of Long-Term Debt.

STATE BOARD OF ACCOUNTS

March 4, 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 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 Gary Lighthouse Charter School (School Corporation), as of and for the years ended June 30, 2009, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated March 4, 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 4, 2010

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>	Program Receipts			Net (Disbursement) Receipts and Changes in Net Assets
	Disbursements	Charges for Services	Operating Grants and Contributions	Totals
Governmental activities:				
Instruction	\$ 2,555,174	\$ -	\$ 138,853	\$ (2,416,321)
Support services	2,170,447	31,063	380,145	(1,759,239)
Noninstructional services	356,258	-	-	(356,258)
Facilities acquisition and construction	1,026,069	-	-	(1,026,069)
Debt service	618,588	-	-	(618,588)
Nonprogrammed charges	2,943	-	-	(2,943)
Total governmental activities	\$ 6,729,479	\$ 31,063	\$ 518,998	(6,179,418)
General receipts:				
Property taxes				1,464,098
Other local sources				81,001
State aid				4,034,588
Bonds and loans				874,845
Grants and contributions not restricted to specific programs				824,314
Investment earnings				1,822
Total general receipts				7,280,668
Change in net assets				1,101,250
Net assets - beginning				428,592
Net assets - ending				\$ 1,529,842
<u>Assets</u>				
Cash and investments				\$ 1,529,842
<u>Net Assets</u>				
Unrestricted				\$ 1,529,842

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

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

	<u>General</u>	<u>Other</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 1,577,985	\$ -	\$ 1,577,985
State sources	4,248,893	720	4,249,613
Federal sources	17,538	1,110,748	1,128,286
Temporary loans	<u>874,845</u>	<u>-</u>	<u>874,845</u>
 Total receipts	 <u>6,719,261</u>	 <u>1,111,468</u>	 <u>7,830,729</u>
Disbursements:			
Current:			
Instruction	2,202,836	352,338	2,555,174
Support services	1,898,221	272,226	2,170,447
Noninstructional services	51,566	304,692	356,258
Facilities acquisition and construction	1,026,069	-	1,026,069
Debt services	618,588	-	618,588
Nonprogrammed charges	<u>2,943</u>	<u>-</u>	<u>2,943</u>
 Total disbursements	 <u>5,800,223</u>	 <u>929,256</u>	 <u>6,729,479</u>
Excess (deficiency) of receipts over disbursements	<u>919,038</u>	<u>182,212</u>	<u>1,101,250</u>
Other financing sources (uses):			
Transfers in	-	8,357	8,357
Transfers out	<u>-</u>	<u>(8,357)</u>	<u>(8,357)</u>
 Total other financing sources (uses)	 <u>-</u>	 <u>-</u>	 <u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>919,038</u>	<u>182,212</u>	<u>1,101,250</u>
Cash and investments - beginning	<u>395,766</u>	<u>32,826</u>	<u>428,592</u>
Cash and investments - ending	<u>\$ 1,314,804</u>	<u>\$ 215,038</u>	<u>\$ 1,529,842</u>
 <u>Cash and Investment Assets - Ending</u>			
Total cash and investment assets - ending	<u>\$ 1,314,804</u>	<u>\$ 215,038</u>	<u>\$ 1,529,842</u>
 <u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 1,314,804</u>	<u>\$ 215,038</u>	<u>\$ 1,529,842</u>

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

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

	Private-Purpose Trust Fund	Agency Funds
Cash and investment fund balance - beginning	\$ 15,408	
Cash and investment fund balance - ending	<u>\$ 15,408</u>	<u>\$ 894</u>
Net assets:		
Cash and investments	<u>\$ 15,408</u>	<u>\$ 894</u>
Total net assets - cash and investment basis held in trust	<u>\$ 15,408</u>	<u>\$ 894</u>

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

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: 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. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental fund:

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.

Additionally, the School Corporation reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the students.

GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, while the fund financial statements for proprietary fund types would use the 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. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. 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

GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

4. Capital Assets

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

5. 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

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.

GARY LIGHTHOUSE CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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:

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. 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 \$1,710,007.

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 year ended June 30, 2009 were as follows:

Transfer From	Transfer To	2009
Other governmental fund Title I FY 2008-09	Other governmental fund Title I FY 2007-08	\$ <u>8,357</u>

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

GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation in accordance with the approved grant agreement for Title I Grants to Local Educational Agencies transferred the unexpended balance to the following grant program year.

III. 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

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., 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 Lighthouse Academies, Incorporated, who provides management and financial accounting services. Payments for these services for the school year ended June 30, 2009, totaled \$509,708.

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 year ended June 30, 2009, totaled \$123,889.

In 2008, one of the school facilities was purchased by Gary Lighthouse Facility, LLC, an organization affiliated with Lighthouse Academies, Inc. In 2009, the School Corporation transferred ownership of the improvements that it had made to the facility and the related debt to the Gary Lighthouse Facility, LLC. A lease agreement for the rental of the facilities was entered into by the School Corporation with Gary Lighthouse Facility, LLC.

During the period for which financial statements are presented, the School Corporation had material transactions with Gary Lighthouse Facilities, LLC in relation to the lease of the school building in the amount of \$324,017.

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 August 1, 2005, the School Corporation entered into a lease agreement for a school facility with the City of Gary. The lease covers a period of seven years to August 1, 2012, with an option to purchase the building at a cost of \$1,170,000. The annual rental payments are \$166,400 which are payable in monthly installments of \$13,867. If the option to purchase is exercised by the School Corporation, the rental payments made to the date of purchase will be applied to the purchase price.

On July 1, 2008, the School Corporation entered into a lease agreement for a school facility with 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 \$387,865, payable in monthly installments of \$32,332. The lease also requires the School Corporation to make monthly payments of \$10,000 to Gary Lighthouse Facility, LLC for operating expenses. If the operating expenses exceed the \$10,000 monthly charge, the School Corporation is required to reimburse 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 lease also requires the School Corporation to make monthly payments of \$5,000 to Gary Lighthouse Facility, LLC for operating expenses. The School Corporation also pays from \$1,000 to \$5,000 per month, based upon the lease period, to the Gary Lighthouse Facility, LLC to be deposited into a Replacement Reserve Account.

Under both of the above lease agreements 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.

GARY LIGHTHOUSE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$234,000 for the calendar year 2010; however, the State is providing a Restoration Grant of \$108,000.

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 \$481,978.66. As of December 31, 2009, the School Corporation received and expended all of the funds received.

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	Title I FY 2007-08	Title I FY 2008-09	Title I School Improvement	Title V Innovative Programs	Drug Free Schools	Improving Teacher Quality Title II A	Totals
Receipts:								
State sources	\$ 720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 720
Federal sources	<u>303,972</u>	<u>49,000</u>	<u>636,168</u>	<u>91,600</u>	<u>1,019</u>	<u>-</u>	<u>28,989</u>	<u>1,110,748</u>
Total receipts	<u>304,692</u>	<u>49,000</u>	<u>636,168</u>	<u>91,600</u>	<u>1,019</u>	<u>-</u>	<u>28,989</u>	<u>1,111,468</u>
Disbursements:								
Current:								
Instruction	-	48,199	303,000	120	1,019	-	-	352,338
Support services	-	9,094	197,057	49,158	-	1,360	15,557	272,226
Noninstructional services	<u>304,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,692</u>
Total disbursements	<u>304,692</u>	<u>57,293</u>	<u>500,057</u>	<u>49,278</u>	<u>1,019</u>	<u>1,360</u>	<u>15,557</u>	<u>929,256</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>(8,293)</u>	<u>136,111</u>	<u>42,322</u>	<u>-</u>	<u>(1,360)</u>	<u>13,432</u>	<u>182,212</u>
Other financing sources (uses):								
Transfers in	-	-	8,357	-	-	-	-	8,357
Transfers out	<u>-</u>	<u>(8,357)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,357)</u>
Total other financing sources (uses)	<u>-</u>	<u>(8,357)</u>	<u>8,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>-</u>	<u>(16,650)</u>	<u>144,468</u>	<u>42,322</u>	<u>-</u>	<u>(1,360)</u>	<u>13,432</u>	<u>182,212</u>
Cash and investments - beginning	<u>-</u>	<u>16,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,360</u>	<u>14,816</u>	<u>32,826</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,468</u>	<u>\$ 42,322</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,248</u>	<u>\$ 215,038</u>
Cash and Investment Assets - Ending								
Total cash and investment assets - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,468</u>	<u>\$ 42,322</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,248</u>	<u>\$ 215,038</u>
Cash and Investment Fund Balance - Ending								
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,468</u>	<u>\$ 42,322</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,248</u>	<u>\$ 215,038</u>

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
Governmental activities:	
Common school loans*	\$ <u>2,695,235</u>

*IC 20-49-7-21 allows Charter Schools to defer loan payments due from July 1, 2009 to January 1, 2011, for two years.

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 Title I FY 2008-09 Fund for the school year ended June 30, 2009, were reported on the Form 9 in the General, Title I FY 2005-06, and Title I School Improvement Funds. Adjustments were made to correct the financial statements to agree to the ledgers. Receipt adjustments totaled \$280,068.32, and disbursements adjustments totaled \$332,229.34.

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.

We also noted receipts issued more than once for the same collections. Receipts were posted to a different fund than indicated on the receipt. Receipts were not located for some collections posted indicating receipts may not be issued for all collections received.

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)

GARY LIGHTHOUSE CHARTER SCHOOL
AUDIT RESULTS AND COMMENTS
(Continued)

AGENCY FUNDS

The aggregate balance of the Agency Funds (Clearing Accounts) as of the end of each fiscal year was \$894; however, the activity of the Agency Funds was not reported in the Combining Schedules because additions and deductions are posted as credits and debits to the expenditures.

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 at the start of the audit. 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)

AVERAGE DAILY MEMBERSHIP (ADM) - RECORDS

The class list provided to substantiate the enrollment figures was not dated or signed by the school principals.

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

GARY LIGHTHOUSE CHARTER SCHOOL
AUDIT RESULTS AND COMMENTS

The building level official (Principal, Assistant Principal, etc.) is 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. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

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. Additionally, many of the claims did not have itemized vendor invoices attached. Some claims simply had a billing statement with the invoice numbers listed. Other claims for services indicated a period in which the service was provided, but not the actual service provided on a given date to determine whether or not any of the services overlap.

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 entity 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.

GARY LIGHTHOUSE CHARTER SCHOOL
AUDIT RESULTS AND COMMENTS

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.

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 in part:

"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."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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 GARY LIGHTHOUSE CHARTER SCHOOL, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the 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, 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 non-compliance 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 2009-2, Finding 2009-3, Finding 2009-4, and Finding 2009-5 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding allowable costs, cash management, program income, and reporting that are applicable to its Child Nutrition Cluster and Title I, Part A Cluster. 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 2009-6.

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 2009-3, Finding 2009-4, and Finding 2009-5 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 2009-3, Finding 2009-4, and Finding 2009-5, 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, 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 4, 2010

GARY LIGHTHOUSE CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 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
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 70,945
National School Lunch Program	10.555		<u>233,028</u>
Total for federal grantor agency			<u>303,973</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-Through Indiana Department of Education			
Title I, Part A Cluster	84.010		
Title I Grants to Local Educational Agencies			
08-9535		S010A070014	57,293
09-9535		S010A080014	500,057
School Improvement			<u>49,278</u>
Total for cluster			<u>606,628</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186		
06-9535		Q186A060015	<u>1,360</u>
State Grants for Innovative Programs	84.298		
Title V, Part A FY 07		S298A70014	<u>1,019</u>
Improving Teacher Quality State Grants	84.367		
07-9535		S367A70013	<u>15,557</u>
Total for federal grantor agency			<u>624,564</u>
Total federal awards expended			<u>\$ 928,537</u>

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

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 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; however, only one year has been audited and presented for this School Corporation.

II. Subsequent Event

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 \$481,978.66. As of December 31, 2009, the School Corporation received and expended all of the funds received.

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:

Name of Federal Cluster

Child Nutrition Cluster
Title I, Part A Cluster

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

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.

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 Title I FY 2008-09 Fund for the school year ended June 30, 2009, were reported on the Form 9 in the General, Title I FY 2005-06, and Title I School Improvement Funds. Adjustments were made to correct the financial statements to agree to the ledgers. Receipt adjustments totaled \$280,068.32, and disbursements adjustments totaled \$332,229.34.

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.

We also noted receipts issued more than once for the same collections. Receipts were posted to a different fund than indicated on the receipt. Receipts were not located for some collections posted indicating receipts may not be issued for all collections received.

The School Corporation does not always include fund names or numbers on claims paid. This 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.

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

Section III – Federal Award Findings and Questioned Costs

FINDING 2009-2, PROGRAM INCOME AND REPORTING SCHOOL NUTRITION PROGRAMS

Federal Agency: U.S. Department of Agriculture
Pass-Through Agency: Indiana Department of Education
Federal Programs: Child Nutrition Cluster
CFDA Numbers: 10.553 and 10.555
Award Numbers: FY 2008-09

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 reported for the 2008-2009 school year agreed to the School Lunch Fund receipts, 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.

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; 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."

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.

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

FINDING 2009-3, ALLOWABLE COSTS CONTROLS AND COMPLIANCE

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Title I, Part A Cluster
CFDA Number: 84.010
Award Numbers: 09-9535

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 Title I program. The following addresses the compliance issues:

Two claims payable to the same vendor in different amounts were posted to the Title I Fund on January 1, 2009. (One was originally posted as paid from the General Fund on August 14, 2008, but transferred to the Title I Fund on January 1, 2009.) Both claims were paid based upon a billing statement (a billing statement lists invoice numbers and dollar amounts of the invoices). The invoices were not attached to either claim. One invoice listed on both billing statements was paid twice. The vendor subsequently refunded the overpayment of \$454.59, but the School Corporation receipted the refund to the General Fund. A fund number was not indicated on either claim. Another claim reviewed indicated payment was to be made from the General Fund; however, the disbursement was posted to the Title I Fund. Yet another claim indicated payment from the Title I Fund, but was revised to indicate payment from the General Fund. The claim was posted as paid from a Title I Fund, but not the Title I Fund indicated on the claim.

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 was prepared by the School Corporation in "Excel" (a commercially packaged spreadsheet software program) and 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.

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

We also attempted to verify that the employees listed on the "Excel" spreadsheet were indicated by the Title I Director as employees who were to be paid from Title I Funds. The Title I Director prepares an "Activity Report for Employees Working on a Single Cost Objective" to document the Teachers and Title I Assistants who work full-time on Title I activities. Additional inquiries were made of the Title I Director to provide a listing of any other employees to have been paid from the Title I Funds, including those who were considered part-time Title I employees. A list was provided as well as time and effort reports, which documented the hours the part-time Title I employees devoted to Title I activities. The comparison showed staff included on the "Excel" spreadsheets as paid from Title I who were not included on the listings from the Title I Director.

Specifically, two teachers paid \$25,499.99, and \$34,485.95 were included on the "Excel" Spreadsheet as paid from the Title I Funds, and the salaries were posted as paid from the Title I Funds, but these individuals were not included on the "Activity Report for Employees Working on a Single Cost Object" or in response to an inquiry of the Title I Director of individuals to have been paid from 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.
- (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, and School Corporation Officials should ensure that the payroll records agree to records maintained by the Title I Director.

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

FINDING 2009-4, CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Programs: Title I Cluster
CFDA Number: 84.010
Award Numbers: 09-9535

Amounts received by the School Corporation for the grant awards are drawn down in advance. School Corporation Officials are required to review needs and draw funds as needed. The drawdown requests are included in the applications for grant funds. School Corporation Officials attempt to fill out the request for drawdowns based upon anticipated needs; however, School Corporation Officials are not modifying the requests when excess balances are maintained. Additionally, School Corporation Officials are constantly reclassifying disbursements from the General Fund to the Title I Funds, which may also affect monitoring cash balance needs. The School Corporation receives their first draws in September or October on each award, with final expenditures in August.

The cash balances exceeded the following month's disbursements for the Title I grant for six out of ten months (September to June) by amounts ranging from \$6,069 to \$96,964. Cash balances for the Title I Improvement Grant exceeded the following month's disbursement for five out of seven months (December to June) by amounts ranging from \$2,395 to \$42,322.

EDGAR 80.20 states in part:

"(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 that School Corporation Officials forecast cash needs when filling out the application. Additionally, School Corporation Officials need to review fund reports of cash balances to determine adequately monitor needs, so that adjustments to requests can be made as needed.

FINDING 2009-5, REPORTING

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Title I Cluster
CFDA Number: 84.010
Award Numbers: 09-9535

Through the application process for Title I funding, budgets are established. Budgets provide accounting tools to ensure proper classification and accountability for the spending of the Title I Funds. The budgets approved for the Title I grants provide account and object numbers which school corporations can use in accounting and tracking disbursements of Title I Funds.

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

School Corporation Officials did not post the approved budget in their appropriation ledger, nor did they establish only the accounts and object numbers provided for the Title I Funds. Additional account numbers were used in some cases, which do not correlate to the account numbers provided on the budget or Annual Financial Report.

The School Corporation is required to submit Quarterly Financial Monitoring Reports to the Indiana Department of Education as well as Annual Financial Expenditure reports. The Quarterly Financial Reports should report the receipts, disbursements, and cash balances of the Title I Funds by program year. The Annual Financial Expenditure Reports report the Title I expenditures as of the close of the grant period. All reports should be traceable to the ledgers maintained by the School Corporation of the financial activity of the applicable Title I Fund.

The Quarterly Financial Monitoring Reports did not agree to the Fund Report activity for the first three quarters. Reported receipts for the first and second quarter exceeded posted receipts by \$23,000 and \$77,956.54, respectively, resulting in the reported cash balance being excessively reported also. Also, for the first quarter reported disbursements were less than the posted disbursements. Reported disbursements for the third quarter exceeded posted disbursements by \$59,605; thus, the cash balance under reported by \$59,605.

The Annual Expenditure reports agree in total to the Fund Reports, but individual categories cannot be easily verified as the account and object numbers per the ledgers do not correspond to the account and object numbers per the reports. The budgets established for the Title I Funds based upon the Applications for Title I Funds are not maintained in the Appropriation Ledgers. School Corporation Officials could post the approved Title I budgets to the Appropriation ledger as an internal control to assist in ensuring amounts budgeted for various disbursement categories are not overspent, and the categories for reporting would agree to budget and disbursement categories or accounts and objects.

EDGAR § 80.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(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.

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

- (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."

We recommended that School Corporation Officials post the budgets approved in the Title I applications to the Appropriations ledger in the proper accounts and objects. The budgets, when properly posted serve as a control to avoid overspending. Budgets can also be used as a tool for posting costs, and ensuring accurate and complete financial reporting by the correct account and object categories.

FINDING 2009-6, SPECIAL TESTS AND PROVISIONS - HIGHLY QUALIFIED

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Programs: Title I Cluster
CFDA Number: 84.010
Award Numbers: 09-9535

Federal guidelines require all teachers who provide instruction in "Core academic subjects" to be "highly qualified" whether paid with Title I Funds or not. "Core academic subjects" include English, Reading, Mathematics, Arts, Foreign Languages, etc. The School Corporation employs an individual as a Spanish teacher for which a license was not located, but we noted she is working on her master's degree. Another individual is teaching music whose license expired on June 30, 2008. Continuing to employ non-licensed teachers may jeopardize the School Corporation's ability to receive future Title I grant awards.

The LEA had to ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A funds, are highly qualified by the end of the 2005-2006 school year. "Core academic subjects" means English, Reading or Language Arts, Mathematics, Science, Foreign Languages, Civics and Government, Economics, Arts, History, and Geography (Title I, Section 1119(a) of ESEA (20 USC 6319(a)); 34 CFR sections 200.55 and 200.56)

34 CFR§ 200.56 Definition of "highly qualified teacher" states in part:

"A teacher described in § 200.55(a) and (b)(1) is a 'highly qualified teacher' if the teacher meets the requirements in paragraph (a) and paragraph (b), (c), or (d) of this section.

(a) In general. (1) Except as provided in paragraph (a)(3) of this section, a teacher covered under § 200.55 must— (i) Have obtained full State certification as a teacher, which may include certification obtained through alternative routes to certification; or (ii)(A) Have passed the State teacher licensing examination; and (B) Hold a license to teach in the State. . . . (3) A teacher teaching in a public charter school in a State must meet the certification and licensure requirements, if any, contained in the State's charter school law."

We recommended that the School Corporation only employ individuals who are licensed or in the process of obtaining a license to teach "Core academic subjects."

GARY LIGHTHOUSE CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

GARY LIGHTHOUSE CHARTER SCHOOL

A-133 AUDIT CORRECTIVE ACTION PLAN 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 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 3: The school could not locate all the receipts and prepared some receipts more than once for the same deposit.

School's response and corrective action The school will look to centralize the issuance of cash receipt vouchers to prevent duplicate receipts from being issued or receipt books not being available for audit.

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 SBOA auditor did not discuss the internal controls or accounting system with the school at any time during the examination. 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.

FINDING NO. 2009-2 PROGRAM INCOME AND REPORTING SCHOOL NUTRITION PROGRAMS

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 an 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. 2009-3 ALLOWABLE COSTS AND COMPLIANCE

Finding 1: Claims tested did not have the fund name or number indicated on the claim. One claim for textbooks costing \$454 was coded to title I but the claim indicated the general fund code.

School's comment and corrective action: The claims now include the fund number and name. Any edits made for a wrong code used are done before payment is made. The school has received training that will assist the school in verifying vendor invoices and contract preparations. The \$454 textbooks were supplementary materials purchased from Oxford Press.

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 within the accounting department and grant monitoring process and education of school administrative employees has improved the accuracy of the original account coding of transactions.

Finding 3 The school makes use of a payroll service but the departmental reports do not correlate with posted payroll transactions.

School's comment The SBOA auditor did not discuss the school's internal controls or accounting system with the school at any time during the examination. 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

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 was 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 but it is still not a system that funds on a reimbursement basis which is the system that would provide better cash management than the current cash forecast method. The IDOE has made changes in FY10 that 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 but the school depends on the IDOE to make these adjustments on a timely basis.

FINDING NO. 2009-5 REPORTING

Finding The school's ledgers did not correlate to the annual expenditure report. Budgets were not maintained into the fund system. The annual expenditure reports agree in total to the Fund Reports but individual categories cannot be easily verified as the account and object numbers per the ledger.

School's comment and corrective action: The school has always maintained an accurate list of Title I expenditures that correlated to the approved budgets. The bookkeeper and the school may not have set up the proper expenditure or object code in the fund ledger. The school will follow the SBOA recommendation to post the budget into the fund accounting system.

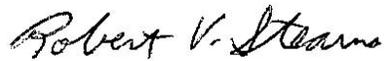
FINDING NO. 2009-6 SPECIAL TESTS AND PROVISIONS – HIGHLY QUALIFIED

Finding 1: The school hired non-Highly Qualified Teachers.

School's comment and corrective action: Our goal is to hire only high quality, highly qualified teachers at each school. All schools with non- highly qualified teachers have a set-aside through Title I and Title IIA to help all teachers meet the highly qualified requirement. Funds are used for course tuition and exam reimbursement. Any non- highly qualified teacher has a detailed plan on file outlining how and when they will become highly qualified. This plan is signed by both employee and principal. Additionally, Lighthouse Academies has a National Recruiter to help with the teacher recruitment process for all schools. The recruitment process focuses on hiring only high quality, highly qualified teachers.

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,
Gary Lighthouse Charter School

GARY LIGHTHOUSE CHARTER SCHOOL
EXIT CONFERENCE

The contents of this report were electronically mailed on March 4, 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 43 through 47.

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
Gary Lighthouse Charter School**

Fy09

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 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 3

Finding: The school could not locate all the receipts and some receipts more than once for the same deposit.

School's comment The school will look to centralize the issuance of cash receipt vouchers to prevent duplicate receipts from being issued or receipt books not being available for audit.

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.

AVERAGE DAILY MEMBERSHIP (ADM)

Audit comment 8:

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. Additionally it was the understanding of the school that the Department of Education could independently confirm the ADM and official list as those records were submitted electronically.

ACCOUNTS PAYABLE VOUCHER CLAIMS

Audit comment 9

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 10:

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 11

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 12

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

School comment: The school will obtain its DUNS number.

OFFICIAL BOND

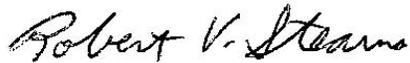
Audit comment 13

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.

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,
Gary Lighthouse Charter School