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B43245

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

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

February 19, 2014

Charter School Board
Monument Lighthouse Charter School
4002 N. Franklin Road
Indianapolis, IN 46226

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Monument Lighthouse Charter School, as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 25 through 27 contain two current audit findings. Management's response is on pages 29 and 30.

In addition to the report presented herein, a Supplemental Audit Report for Monument Lighthouse Charter School was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

State Board of Accounts

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Financial Statements and Federal Single Audit Report

June 30, 2013 and 2012

MONUMENT LIGHTHOUSE CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Lighthouse Academies of Indiana, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Monument Lighthouse Charter School** (an operating component of Lighthouse Academies of Indiana, Inc., a not-for-profit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

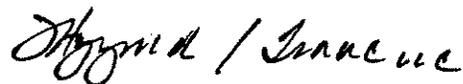
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monument Lighthouse Charter School as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013 on our consideration of Monument Lighthouse Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Monument Lighthouse Charter School's internal control over financial reporting and compliance.



Indianapolis, IN
December 9, 2013

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Statements of Financial Position

	June 30	
Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 529,524	515,515
Accounts receivable:		
State education support	-	2,059,972
Grants	93,030	109,684
Prepaid expenses	51,388	38,001
Total current assets	673,942	2,723,172
Security deposit	-	2,500
Property and equipment:		
Leasehold improvements	512,603	512,603
Furniture and equipment	360,805	360,805
Less: accumulated depreciation	(430,815)	(301,913)
Property and equipment, net	442,593	571,495
	\$ 1,116,535	3,297,167
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 172,060	279,569
Refundable advances	16,597	16,247
Current portion of long-term debt	80,135	76,615
Total current liabilities	268,792	372,431
Accrued interest on Common School Fund loans	-	280,724
Deferred rent payable	97,659	115,150
Long-term debt	-	2,206,464
Total liabilities	366,451	2,974,769
Unrestricted net assets	750,084	322,398
	\$ 1,116,535	3,297,167

See accompanying notes to financial statements.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Statements of Activities

	<u>Year Ended June 30</u>	
	<u>2013</u>	<u>2012</u>
<u>Revenue, Gains and Support</u>		
State education support	\$ 4,123,417	4,120,133
Grant revenue	1,503,378	1,446,776
Student fees	14,717	18,184
Fundraising income	6,858	3,632
Other	4,873	1,714
Total revenue, gains and support	<u>5,653,243</u>	<u>5,590,439</u>
<u>Expenses</u>		
Program services:		
Educational instruction	3,615,893	3,566,560
Education support	956,909	767,873
Administrative	1,042,588	1,222,441
Fundraising	3,347	-
Total expenses	<u>5,618,737</u>	<u>5,556,874</u>
Increase in net assets before non-operating revenue	34,506	33,565
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	<u>393,180</u>	-
Increase in net assets	427,686	33,565
Net assets, beginning of year	<u>322,398</u>	<u>288,833</u>
Net assets, end of year	<u>\$ 750,084</u>	<u>322,398</u>

See accompanying notes to financial statements.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Statements of Cash Flows

Operating Activities	Year Ended June 30	
	2013	2012
Change in net assets	\$ 427,686	33,565
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Gain due to changes in legislative funding	(393,180)	-
Depreciation	128,902	128,902
Refund of security deposit	2,500	-
Change in:		
Accounts receivable	14,917	(126,959)
Prepaid expenses	(13,387)	(1,986)
Accounts payable and accrued expenses	(59,673)	(64,288)
Refundable advances	350	8,028
Deferred rent payable	(17,491)	(17,491)
Net cash provided (used) by operating activities	<u>90,624</u>	<u>(40,229)</u>
<u>Investing Activities</u>		
Acquisition of property and equipment	-	(23,260)
Net cash used by investing activities	<u>-</u>	<u>(23,260)</u>
<u>Financing Activities</u>		
Principal repayments of term loan	(76,615)	(73,250)
Net cash used by financing activities	<u>(76,615)</u>	<u>(73,250)</u>
Net increase (decrease) in cash	14,009	(136,739)
Cash and cash equivalents, beginning of year	<u>515,515</u>	<u>652,254</u>
Cash and cash equivalents, end of year	<u>\$ 529,524</u>	<u>515,515</u>
Supplemental disclosures:		
Cash paid for interest expense	\$ 5,486	8,851

See accompanying notes to financial statements.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

Monument Lighthouse Charter School (the "School") is a public charter school established under Indiana Code 20-24 and sponsored by the Mayor's Office of the City of Indianapolis. The sponsor has granted a charter to the School's organizer, 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 located 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.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Subsequent Events

The School evaluated subsequent events through December 9, 2013, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required. See Note 9 for a description of subsequent events affecting the financial statements.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$5,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Leasehold improvements.....	9 years
Furniture and equipment	5 years

Taxes on Income

Lighthouse Academies of Indiana, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the organization would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2013 and 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income, Continued

Professional accounting standards require Lighthouse Academies of Indiana, Inc. to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. Lighthouse Academies of Indiana, Inc. has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2012, 2011, and 2010 are open to audit for both federal and state purposes.

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(2) Legislative Funding Changes, Continued

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$2,126,329
Repayment of accrued interest on Common School Fund loans....	<u>328,560</u>
	2,454,889
Elimination of School funding	<u>(2,061,709)</u>
	<u>\$ 393,180</u>

(3) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represented amounts due from the State of Indiana relating to the following sources:

Tuition support	\$1,990,177
Special education grant	<u>69,795</u>
	<u>\$2,059,972</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law, with tuition payable in equal monthly installments in the calendar year following the start of the academic school year. Effective July 1, 2013, tuition support will be paid in monthly installments that coincide with the School's fiscal year (see Note 2).

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(4) Long-Term Debt

Long-term debt at June 30, 2013 and 2012 was comprised of:

	<u>2013</u>	<u>2012</u>
Note payable to Lighthouse Academies, Inc.	\$ 80,135	156,750
Notes payable to Indiana Common School Fund.....	-	<u>2,126,329</u>
	80,135	2,283,079
Less current maturities	<u>(80,135)</u>	<u>(76,615)</u>
	\$ -	<u>2,206,464</u>

The note payable to Lighthouse Academies, Inc. is a term loan with an original principal amount of \$230,000. The loan is payable in equal monthly installments of \$6,842, including interest at 4.5% per annum, through June 30, 2014 and is secured by personal property.

The notes payable to the Indiana Common School Fund were comprised of three notes, each of which required semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. In 2013 and 2012, the loans were under a moratorium on loan payments, but interest continued to accrue. In 2013, the outstanding loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(5) Leases

The School executed a ten-year lease on a building used as its school facility under an operating lease agreement with Monument Lighthouse Facility, LLC. Monument Lighthouse Facility, LLC is indirectly owned by Lighthouse Academies, Inc., which provides management services to the School. The lease, which commenced February 10, 2009 and replaced an existing lease, provides for monthly rental payments equal to the debt service on a note payable executed by the lessor to purchase the building. The School is responsible for repairs, maintenance, and utilities. The School was allowed certain rent concessions under the previous lease and has, therefore, recorded a deferred credit to reflect the excess of rent expense over cash payments since the inception of the lease.

The School leased textbooks, furniture and equipment from Lighthouse Academies, Inc. and Charter Schools Development Corporation. These leases were accounted for as operating leases, and expired in November 2012. In 2012, the School executed a lease agreement with Somerset Capital Group, Ltd. covering certain items of equipment. This lease requires monthly rent payments through July 2015.

Total lease expense for the years ended June 30, 2013 and 2012 was \$537,027 and \$616,015, respectively. A schedule of minimum lease obligations as of June 30, 2013 follows:

Year Ended June 30:

2014	\$ 592,154
2015	592,154
2016	577,346
2017	576,000
2018	576,000
Thereafter	384,000

On August 28, 2013, the lease on the school facility was terminated and replaced with a new 30-year lease agreement, which amends the schedule of minimum lease obligations (see Note 9).

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(6) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2013 and 2012, the School had refundable grant advances in excess of expenditures of \$16,597 and \$16,247, respectively.

(7) Commitments

Lighthouse Academies of Indiana, Inc. ("LAI") has contracted with Lighthouse Academies, Inc. to provide management, administrative, and educational programming services for each of its schools. Under the terms of the agreement, LAI has agreed to pay an amount equal to 7.5% of revenues, as defined, for such services. Payments under this agreement were \$397,240 and \$396,023 for the years ended June 30, 2013 and 2012, respectively. This agreement remains in effect for the period of the School's charter, and is subject to automatic renewal at such time as the School's charter is renewed. The School's charter expires on June 30, 2014, and is renewable by mutual consent of the School and its charter sponsor.

(8) Retirement Plan

All School personnel are employees of Lighthouse Academies, Inc., which provides management services to the School. School personnel are eligible to participate in the Lighthouse Academies, Inc. Section 401(k) retirement plan. Under the plan, the School matches 100% of employee contributions not to exceed 4% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the LAI board of directors. No discretionary contributions were made in 2013 and 2012. Retirement plan expense for the years ended June 30, 2013 and 2012 was \$28,657 and \$22,023, respectively.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(9) Subsequent Events

On August 28, 2013, the land and building comprising the school facility was acquired by CFM Indianapolis, LLC, an entity controlled by CFM, Inc. CFM, Inc. was created by the School's management company, Lighthouse Academies, Inc., to provide facilitation and operational support of charter schools. CFM, Inc. and Lighthouse Academies, Inc. have common management personnel, but are governed by independent boards of directors.

Coincident with the purchase of the facility by CFM Indianapolis, LLC, the existing lease was cancelled and the School entered into a new 30-year lease agreement with CFM Indianapolis, LLC on the same facility. The lease requires the School to make rental payments equal to CFM Indianapolis, LLC's debt service obligation on bonds that it issued to purchase the facility. The School has the option to purchase the facility at any time for \$1 plus the remaining balance due on the bond debt.

(10) Risks and Uncertainties

The School provides education services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2013 and 2012, substantially all of the accounts receivable balance was due from the State of Indiana. Cash deposits are maintained at J.P. Morgan Chase Bank and BMO Harris Bank and normally exceed the FDIC insurance limit.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(11) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the years ended June 30, 2013 and 2012:

	<u>2013</u>			
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>	<u>Fundraising</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>	
Salaries and wages.....	\$1,819,396	119,370	249,902	-
Employee benefits	430,523	28,247	59,134	-
Staff development and recruitment	50,159	-	21,744	-
Academic services – Lighthouse Academies	-	-	407,600	-
Food service	-	345,497	-	-
Transportation service	-	366,627	-	-
Other professional services	313,412	-	82,616	-
Property and textbook rental	84,486	-	-	-
Classroom, kitchen and office supplies	129,412	36,158	19,686	-
Occupancy	668,957	43,891	91,884	-
Interest	-	-	53,323	-
Depreciation	107,154	7,031	14,718	-
Other	<u>12,394</u>	<u>10,088</u>	<u>41,981</u>	<u>3,347</u>
	<u>\$3,615,893</u>	<u>956,909</u>	<u>1,042,588</u>	<u>3,347</u>

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

	2012		
	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Administrative</u>
Salaries and wages.....	\$1,824,865	3,882	268,790
Employee benefits	415,869	918	79,044
Staff development and recruitment.....	14,704	-	26,301
Academic services – Lighthouse Academies	-	-	408,357
Food service	-	362,887	-
Transportation service	-	361,714	-
Other professional services	288,781	-	131,722
Property and textbook rental	132,655	-	-
Classroom, kitchen and office supplies.....	41,582	36,649	20,965
Occupancy	717,859	1,584	136,443
Interest	-	-	93,857
Depreciation	108,114	239	20,549
Other	<u>22,131</u>	<u>-</u>	<u>36,413</u>
	<u>\$3,566,560</u>	<u>767,873</u>	<u>1,222,441</u>

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 113,198
National School Lunch Program	10.555		235,740
Total for cluster			<u>348,938</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	12-9590/13-9590	524,539
Special Education Cluster			
Special Education - Grants to States	84.027	14211-520-PN01 14212-520-PN01 14213-520-PN01	137,134
Charter Schools Program	84.282	SY2012-13-014	257,975
Improving Teacher Quality State Grants	84.367	11-9590/12-9590	56,584
ARRA--Education Jobs Fund	84.410	9590	2,628
Total for federal grantor agency			<u>978,860</u>
Total federal awards expended			<u>\$ 1,327,798</u>

See accompanying Independent Auditor's Report.
See accompanying notes to this schedule.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Monument Lighthouse Charter School ("the School") under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

INDEPENDENT AUDITOR'S 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*

The Board of Directors
Lighthouse Academies of Indiana, Inc.

We have audited, in accordance with the 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, the financial statements of **Monument Lighthouse Charter School** (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Allyson / Inactive

Indianapolis, IN
December 9, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

The Board of Directors
Lighthouse Academies of Indiana, Inc.

Report on Compliance for Each Major Federal Program

We have audited **Monument Lighthouse Charter School's** (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2013. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Monument Lighthouse Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 items No. 2013-1 and No. 2013-2. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in the accompanying schedule findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Monument Lighthouse Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2 that we consider to be significant deficiencies.

The School's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Indianapolis, IN
December 9, 2013

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Type of auditor's report issued on compliance for major program:	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	Yes

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	School Breakfast Program
	National School Lunch Program
84.010	Title I, Part A Cluster
	Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee: No

II. Financial Statement Findings

No matters are reportable.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

III. Federal Award Findings and Questioned Costs

Questioned
Costs

FINDING NO. 2013-1 ELIGIBILITY

Federal Agency:	U.S. Department of Agriculture
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Child Nutrition Cluster
CFDA Number:	10.553 and 10.555
Award Year:	FY 2012-13

Condition

In our audit of 15 applications for the student lunch program, we noted the following issues:

1. Two instances where students were assigned incorrect meal benefits.
2. One instance where the student application could not be located.

Criteria

7 CFR 245.6(c) states in part: "The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year."

Cause

The School had established procedures to obtain and process the applications for free or reduced price meals, but personnel responsible for the nutrition program failed to comply.

Effect

The failure to properly determine income eligibility could result in either (1) students being denied eligible benefits, or (2) the improper expenditure of federal funds.

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

III. Federal Award Findings and Questioned Costs, Continued

	<u>Questioned Costs</u>
<p><u>Context</u> It was not practicable to determine the dollar value of the identified errors.</p>	<u>\$ -0-</u>

Recommendation
The School should establish a methodical process of oversight and monitoring to assure proper determination and documentation of eligibility for free or reduced price meals that would address the issues noted above.

Views of Responsible Officials and Planned Corrective Action
See attached letter of response from School officials.

FINDING NO. 2013-2 ELIGIBILITY VERIFICATION

Federal Agency:	U.S. Department of Agriculture
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Child Nutrition Cluster
CFDA Number:	10.553 and 10.555
Award Year:	FY 2012-13

Condition
The School was unable to produce evidence that the required verification of income eligibility applications had been performed.

Criteria
7 CFR 245.6a(b)(1) states: "The local education agency must complete the verification efforts specified in paragraph (c) of this section not later than November 15 of each school year."

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

Criteria

7 CFR 245.6a (c) (3) states: "Unless eligible for an alternative sample size under paragraph (d) of this section, the sample size for each local educational agency shall equal the lessor of: (i) Three (3) percent of all applications approved by the local educational agency for the school year, as of October 1 of the school year, selected from error prone applications; or (ii) 3,000 error prone applications approved by the local educational agency for the school year, as of October 1 of the school year."

Cause

The School had established procedures to document the number of verified applications, but personnel responsible for the nutritional program failed to comply.

Effect

The failure to verify income applications could result in the improper expenditure of federal funds.

Context

Because verifications were not performed as indicated, no determination of questioned costs was possible.

\$ -0-

Recommendation

We recommend that the School establish a methodical process of oversight and monitoring to assure the verification of income data, with the emphasis on error prone applications.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

Total U.S. Department of Agriculture

\$ -0-

MONUMENT LIGHTHOUSE CHARTER SCHOOL

Other Reports

Year Ended June 30, 2013

The reports presented herein were prepared in addition to another official report prepared for the school as listed below:

Supplemental Audit Report of Monument Lighthouse Charter School

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.

Lighthouse Academies of Indiana, Inc.

December 23, 2013

Fitzgerald/Isaac LLC
9245 N. Meridian St., Suite 302
Indianapolis, IN 46260
Attn: Eugene P. Fitzgerald

Re: Responses to A-133 Findings for Monument Lighthouse Charter School

Dear Sir:

Finding No. 2013-1 SCHOOL LUNCH ELIGIBILITY

Audit Comment: Eligibility determination for three out of fifteen students was incorrect. A student was determined to qualify for reduced cost meals when the student did not qualify for subsidy. A second student was determined to qualify for free meals, when the student actually qualified for reduced cost meals. The third student had no documentation available to support the free meal status determined.

School Response: FY2013 was a time of transition at Monument with two new principals and three business managers during the year. Most of the compliance issues were connected with the business manager, who was later terminated.

Policies and procedures surrounding free and reduced applications and verifications have been reviewed with the School Operations Manager by both the Controller and Regional Operations Manager from Lighthouse Academies, Inc. The Regional Operations Manager is based in Indiana, and visits the various schools during the year. Periodic random sampling of students and their status are checked against PowerLunch for accuracy.

Finding No. 2013-2 SCHOOL LUNCH ELIGIBILITY VERIFICATION

Audit Comment: The School could not produce evidence that the required verification of income eligibility applications had been performed.

School Response: The verifications of applications were performed by the interim business manager, who worked on them with both the Controller and Treasurer. As stated above, FY2013 was a time of transition at Monument with three business managers during the year. Due to the transitions of personnel, the documents could not be found at the time of the audit. The individual responsible for issuing the applications for free and reduced status was terminated prior to verification of applications. The interim business manager verified the applications, but did not leave behind adequate records. As a result, there were uncorrected errors and inadequate records.

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

Policies and procedures surrounding free and reduced applications and verifications have been reviewed with the School Operations Manager by both the Controller and Regional Operations Manager from Lighthouse Academies, Inc. The Regional Operations Manager is based in Indiana, and visits the various schools during the year. Verification summaries and detail have been forwarded to the Controller and Regional Operations Manager for review. Periodic random sampling of students and their status are checked against PowerLunch for accuracy.

If you have any questions, please let me know.

Thank you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Howard Hammond".

Howard Hammond
Controller
Lighthouse Academies of Indiana, Inc.