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March 3, 2015

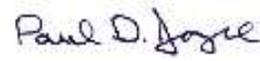
Charter School Board
Gary Lighthouse Charter School
3201 Pierce Street
Gary, IN 46408

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. 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 Gary Lighthouse Charter School, as of June 30, 2014, 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. The audit report disclosed one financial statement finding and one federal award finding. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. Management's response and planned corrective action may be found in the Attachment.

In addition to the report presented herein, a Supplemental Audit Report for Gary 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.


Paul D. Joyce, CPA
State Examiner

GARY LIGHTHOUSE CHARTER SCHOOL

Financial Statements and Federal Single Audit Report

June 30, 2014 and 2013

GARY LIGHTHOUSE CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Gary Lighthouse Charter School** (an operating component of Lighthouse Academies of Northwest Indiana, Inc., a not-for-profit corporation), which comprise of statements of financial position as of June 30, 2014 and 2013, 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 Gary Lighthouse Charter School as of June 30, 2014 and 2013, 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 February 12, 2015 on our consideration of Gary 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 Gary Lighthouse Charter School's internal control over financial reporting and compliance.



Indianapolis, IN
February 12, 2015

GARY LIGHTHOUSE CHARTER SCHOOL

Statements of Financial Position

Assets	June 30	
	2014	2013
Current assets:		
Cash and cash equivalents	\$ 1,715,557	1,577,953
Accounts receivable:		
Grants	779,348	89,021
Other	66,123	-
Prepaid expenses	65,975	74,752
Total current assets	<u>2,627,003</u>	<u>1,741,726</u>
Property and equipment:		
Land	826,400	19,618
Buildings and improvements	10,552,782	362,090
Furniture and equipment	835,369	316,680
Less: accumulated depreciation	(755,457)	(319,069)
Property and equipment, net	<u>11,459,094</u>	<u>379,319</u>
	<u>\$ 14,086,097</u>	<u>2,121,045</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,317,028	435,249
Current portion of capital lease obligations	36,993	-
Refundable advances	53,707	46,786
Total current liabilities	<u>1,407,728</u>	<u>482,035</u>
Capital lease obligations	<u>10,663,007</u>	-
Total liabilities	<u>12,070,735</u>	<u>482,035</u>
Unrestricted net assets	<u>2,015,362</u>	<u>1,639,010</u>
	<u>\$ 14,086,097</u>	<u>2,121,045</u>

See accompanying notes to financial statements.

GARY LIGHTHOUSE CHARTER SCHOOL

Statements of Activities

	Year Ended June 30	
	2014	2013
<u>Revenue and Support</u>		
State education support	\$ 11,501,485	5,343,488
Grant revenue	2,994,867	1,836,907
Student fees	35,098	24,823
Fundraising income	54,465	28,255
Other	1,580	211
Total revenue and support	<u>14,587,495</u>	<u>7,233,684</u>
<u>Expenses</u>		
Program services	10,479,346	5,768,174
Management and general	3,944,499	1,417,938
Total expenses	<u>14,423,845</u>	<u>7,186,112</u>
Change in net assets before non-operating revenue	163,650	47,572
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	<u>-</u>	<u>487,468</u>
Change in net assets	163,650	535,040
Net assets, beginning of year	1,639,010	1,103,970
Transfer of assets from the West Gary charter school	<u>212,702</u>	<u>-</u>
Net assets, end of year	<u>\$ 2,015,362</u>	<u>1,639,010</u>

See accompanying notes to financial statements.

GARY LIGHTHOUSE CHARTER SCHOOL

Statements of Cash Flows

	Year Ended June 30	
	2014	2013
<u>Operating Activities</u>		
Change in net assets	\$ 163,650	535,040
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Gain due to changes in legislative funding	-	(487,468)
Contribution of capital assets	(345,988)	-
Depreciation	407,541	95,929
Change in:		
Accounts receivable	(756,450)	(160,884)
Prepaid expenses	121,826	(36,142)
Accounts payable and accrued expenses	881,779	(208,155)
Refundable advances	6,921	23,257
Net cash provided (used) by operating activities	479,279	(238,423)
<u>Investing Activities</u>		
Purchase of property and equipment	(361,952)	-
Net cash used by investing activities	(361,952)	-
<u>Financing Activities</u>		
Cash transferred from the West Gary school	20,277	-
Net cash provided by investing activities	20,277	-
Net increase (decrease) in cash	137,604	(238,423)
Cash and cash equivalents, beginning of year	1,577,953	1,816,376
Cash and cash equivalents, end of year	\$ 1,715,557	1,577,953
Supplemental disclosures:		
Cash paid for interest expense	\$ 977,251	-
Non-cash investing and financing activities:		
Land and building acquired under capital lease	\$ 10,700,000	-
Transfer of non-cash assets from the West Gary charter school	192,425	-

See accompanying notes to financial statements.

GARY LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies

General

Gary Lighthouse Charter School (the "School") is a public charter school established under Indiana Code 20-24 and sponsored by Ball State University. The sponsor has granted a charter to the school's organizer, Lighthouse Academies of Northwest Indiana, Inc. ("LANWI"), a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. LANWI is the organizer and governing body of two charter schools located in Indiana. LANWI 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 February 12, 2015 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.

GARY 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 other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in July through June coinciding with 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:

Building and improvements	7 to 30 years
Furniture and equipment	5 years

Taxes on Income

Lighthouse Academies of Northwest 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, 2014 and 2013, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

GARY 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 Northwest 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 Northwest Indiana, Inc. has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions.

(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 is 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 was eliminated.

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 applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

GARY 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.....	\$2,685,220
Repayment of accrued interest on Common School Fund loans....	<u>473,992</u>
	3,159,212
Elimination of School funding	<u>(2,671,744)</u>
	\$ <u>487,468</u>

(3) Leases

In July 2008, the School executed a ten-year lease on one of its school buildings under an operating lease with Gary Lighthouse Facility, LLC. Gary Lighthouse Facility, LLC was indirectly owned by Lighthouse Academies, Inc., which provides management services to the School. On August 28, 2013, the land and building comprising of this facility was acquired by CFM – NW Indiana, LLC, an entity controlled by CFM, Inc. At the same time, the School sold to CFM – NW Indiana, LLC land and building that it owned for the purchase price of \$1. 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 these facilities by CFM – NW Indiana, LLC, the existing lease was cancelled and the School entered into a new 30-year lease agreement with CFM – NW Indiana, LLC covering these two facilities and a third facility, which is accounted for as a capital lease. Under the lease agreement, CFM – NW Indiana, LLC agreed to make improvements to the facilities at an approximate cost of \$3,000,000. The lease requires the School to make rental payments equal to CFM – NW Indiana, LLC’s debt service obligation on bonds that it issued to purchase the facilities. In addition, the School is responsible for utilities, maintenance, and insurance. The School has the option to purchase the facilities at any time for \$1 plus the remaining balance due on the bond debt. At June 30, 2014, the cost and accumulated depreciation relating to these assets were \$10,991,239 and \$282,357, respectively.

GARY LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(3) Leases, Continued

Following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments as of June 30, 2014:

<u>Year Ended June 30:</u>	
2015	\$ 1,341,090
2016	1,339,590
2017	1,339,240
2018	1,342,490
2019	1,340,740
Thereafter.....	<u>33,512,030</u>
	40,215,180
Less: amount representing interest	<u>(29,515,180)</u>
	<u>\$ 10,700,000</u>

The School also leases textbooks, furniture and equipment on a regular basis. The leases are accounted for as operating leases and require monthly payments over a period of three years. Total lease expense under operating leases for the years ended June 30, 2014 and 2013 was \$44,694 and \$435,448, respectively. Obligations under operating leases as of June 30, 2014 totaled \$2,472 due in 2015.

(4) 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 LANWI board of directors. No discretionary contributions were made in 2014 and 2013. Retirement plan expense under the plan for the years ended June 30, 2014 and 2013 was \$76,828 and \$49,555, respectively.

GARY LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(5) 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, 2014 and 2013, the School had refundable grant advances in excess of expenditures of \$53,707 and \$46,786, respectively.

(6) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this agreement was \$229,540 and \$78,675 for the years ended June 30, 2014 and 2013, respectively. The charter remains in effect until June 30, 2016, and is renewable thereafter by mutual consent.

Lighthouse Academies of Northwest Indiana, Inc. ("LANWI") 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, LANWI has agreed to pay an amount equal to 7.5% of revenues, as defined, for such services. Payments under this agreement were \$988,301 and \$512,686 for the years ended June 30, 2014 and 2013, respectively. This agreement remains in effect until June 30, 2016.

(7) Asset Transfer

The School's organizer, Lighthouse Academies of Northwest Indiana, Inc. ("LANWI"), operated another charter school under the name West Gary Lighthouse Charter School. Effective June 30, 2013, LANWI opted to not renew the charter for the West Gary school and to cease operations. LANWI transferred the assets at this location consisting of cash, furniture and equipment, and prepaid expenses to the School. The School also assumed use of the West Gary facility and negotiated a new 30-year lease (see Note 3).

GARY LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(8) Risks and Uncertainties

The School provides education services to families residing in Lake 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, 2014 and 2013, 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 are insured up to the FDIC insurance limit.

GARY LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(9) 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 between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

	<u>2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$ 5,511,525	1,030,665
Employee benefits	1,206,901	225,622
Staff development and recruitment	48,275	14,509
Academic services – Lighthouse Academies ...	-	1,019,700
Authorizer’s oversight fee	-	229,540
Food service	789,982	-
Transportation service	742,264	-
Other professional services	73,816	119,027
Property and textbook rental	126,418	-
Classroom, kitchen and office supplies	955,511	42,255
Occupancy	620,195	115,978
Depreciation	343,353	64,188
Interest	-	977,251
Other	<u>61,106</u>	<u>105,764</u>
	<u>\$ 10,479,346</u>	<u>3,944,499</u>

GARY LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	<u>2013</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$2,803,942	350,838
Employee benefits	631,777	79,050
Staff development and recruitment	61,500	58,038
Academic services – Lighthouse Academies ...	-	524,170
Authorizer’s oversight fee	-	78,675
Food service	389,588	-
Transportation service	325,741	-
Other professional services	213,098	52,867
Property and textbook rental	91,970	-
Classroom, kitchen and office supplies	389,625	24,852
Occupancy	736,271	92,125
Depreciation	85,262	10,667
Interest	-	96,519
Other	<u>39,400</u>	<u>50,137</u>
	<u>\$5,768,174</u>	<u>1,417,938</u>

GARY LIGHTHOUSE CHARTER SCHOOL

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

<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		\$ 173,342
National School Lunch Program	10.555		528,183
Total for cluster			<u>701,525</u>
 Fresh Fruit and Vegetable Program	 10.582		 <u>14,846</u>
Total for federal grantor agency			<u>716,371</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	13-9595/14-9535	1,420,432
 Special Education Cluster			
Special Education - Grants to States	84.027	14213-501-PN01 14214-501-PN01	116,915
 Improving Teacher Quality State Grants	 84.367	 12-9585/13-9585	 <u>132,472</u>
Total for federal grantor agency			<u>1,669,819</u>
 Total federal awards expended			 <u><u>\$2,386,190</u></u>

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

GARY LIGHTHOUSE CHARTER SCHOOL

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Gary Lighthouse Charter School (the “School”) under programs of the federal government for the year ended June 30, 2014. 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 Northwest 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 **Gary Lighthouse Charter School** (the "School"), which comprise the statement of financial position as of June 30, 2014, 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 February 12, 2015.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

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.



Indianapolis, IN
February 12, 2015

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 Northwest Indiana, Inc.

Report on Compliance for Each Major Federal Program

We have audited **Gary 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, 2014. 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, Gary 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, 2014.

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 item 2014-002. Our opinion on each major federal program is not modified with respect to these matters.

Gary Lighthouse Charter School's response to the noncompliance finding 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.

Report on Internal Control Over Compliance

Management of Gary 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 and 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 one deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-002, that we consider to be a significant deficiency.

Gary Lighthouse Charter School's response to the internal control over compliance findings identified in our audit are 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.

Handwritten signature in cursive script, appearing to read "Raymond J. Lane III".

Indianapolis, IN
February 12, 2015

GARY LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

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:	Yes
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

GARY LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

I. Summary of Auditor's Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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: Yes

II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

FINDING NO. 2014-001 EMPLOYEE TIME RECORDS

Condition

The School maintains attendance records for School personnel, but was unable to provide semi-annual certifications or time-and-effect logs to support employee wages charged to federal grant programs.

Criteria

OMB Circular A-87 requires that where "employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee." Furthermore, "where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation."

GARY LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

II. Financial Statement Findings, Continued

Cause

The School did not have procedures in place to assure these documents were maintained after the departure of the employee responsible for the reports.

Effect

The failure to properly document employee time could result in expenses being inappropriately charged to grant programs.

Recommendation

We recommend that the School implement a process for document retention regarding information necessary to substantiate amounts claimed for grant reimbursement.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

III. Federal Award Findings and Questioned Costs

FINDING NO. 2014-002 EMPLOYEE TIME RECORDS

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Award Year: FY 2013-14

Questioned
Costs

SIGNIFICANT DEFICIENCY

As presented in Finding No. 2014-001, documentation of personnel charged to the Title I grant was not maintained. Because of the failure to maintain such documentation, personnel costs may be charged to the grant inappropriately. Procedures should be implemented to assure such documentation is produced and retained.

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GARY LIGHTHOUSE CHARTER SCHOOL

Other Reports

Year Ended June 30, 2014

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

Supplemental Audit Report of Gary 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 Northwest Indiana, Inc.

February 18, 2015

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

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

Dear Sir:

Finding Nos. 2014-1 and 2014-2 EMPLOYEE TIME RECORDS

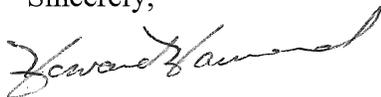
Audit Comment: The School was unable to provide semi-annual certifications or time-and-effort logs to support employee wages charged to federal grant programs. Documentation of personnel charged to the Title I grant was not maintained.

Cause: The school did not have procedures in place to assure these documents were maintained after the departure of the employee responsible for the reports.

School Response: FY2014 was a year of great change at Gary Lighthouse Charter School. There were new school operations managers and principals. Although the regional operations manager was aware of the requirement for semi-annual certifications and time-and-effort logs, not all of the school operations managers were. The regional operations manager is training the new school operations managers, and she is making sure that the semi-annual certifications and time-and-effort logs are completed. The School will regularly compare its Title I staff as listed in the Title I budget and application with staff listed on its payroll records. Staff funded entirely by Title I will be listed on the Semi-Annual Certification. Staff funded partially by Title I will sign Time & Effort logs. Semi-annual certifications and logs will be reviewed by the School Operations Manager, Regional Operations Manager, Principal, and Controller for accuracy. Changes to the certification due to new hires and/or terminations will need to be verified again.

Thank you.

Sincerely,



Howard Hammond
Controller
Lighthouse Academies of Indiana, Inc.

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

1661 Worcester Rd, Suite 207 · Framingham, MA 01701 · Ph: 508.626.0901 · Fax: 508.626.0905

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