B44867

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

March 3, 2015

Charter School Board
East Chicago Lighthouse Charter School
3916 Pulaski Street
East Chicago, IN 46312

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 East Chicago 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 East Chicago 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

Paul D. Joyce, CPA
State Examiner

<u>EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL</u>

Financial Statements and Federal Single Audit Report

June 30, 2014 and 2013

Fitzgerald Isaac LLC
Certified Public Accountants

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

Table of Contents

Fitzgerald Isaac LLC
Certified Public Accountants

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 **East Chicago 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.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

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 East Chicago 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 East Chicago 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 East Chicago Lighthouse Charter School's internal control over financial reporting and compliance.

Indianapolis, IN
February 12, 2015

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

Statements of Financial Position

	June 30	
Assets	**2014**	**2013**
Current assets:		
Cash and cash equivalents	$ 480,808	244,138
Accounts receivable:		
Grants	158,404	95,869
Other	28,637	88,733
Prepaid expenses	20,000	21,685
Total current assets	687,849	450,425
Security deposit	-	8,000
Property and equipment:		
Land	418,800	-
Building and improvements	2,554,510	-
Leasehold improvements	-	628,933
Furniture and equipment	166,646	157,710
Less: accumulated depreciation	(201,082)	(345,876)
Property and equipment, net	2,938,874	440,767
	$ 3,626,723	899,192
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 397,948	256,509
Current portion of long-term debt	250,000	-
Current portion of capital lease obligations	8,259	-
Refundable advances	47,332	20,417
Total current liabilities	703,539	276,926
Deferred rent payable	-	181,603
Long-term debt	-	250,000
Capital lease obligations	2,591,741	-
Total liabilities	3,295,280	708,529
Unrestricted net assets	331,443	190,663
	$ 3,626,723	899,192

See accompanying notes to financial statements.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

Statements of Activities

	Year Ended June 30	
Revenue and Support	2014	2013
State education support	$ 3,140,108	4,316,585
Grant revenue	1,083,782	1,390,035
Student fees	19,779	43,392
Fundraising income	31,564	66,548
Other	215	73
Total revenue and support	4,275,448	5,816,633
Expenses		
Program services	2,872,427	4,506,504
Management and general	1,244,105	1,098,408
Fundraising	18,136	38,979
Total expenses	4,134,668	5,643,891
Change in net assets before non-operating expense	140,780	172,742
Non-Operating Expense		
Loss due to changes in legislative funding	-	(23,603)
Increase in net assets	140,780	149,139
Net assets, beginning of year	190,663	41,524
Net assets, end of year	$ 331,443	190,663

See accompanying notes to financial statements.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2014	2013
Change in net assets	$ 140,780	149,139
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Loss due to changes in legislative funding	-	23,603
Contribution of capital assets	(162,207)	-
Depreciation	91,433	94,437
Change in:		
Accounts receivable	(2,439)	(409,194)
Prepaid expenses	9,685	79,595
Accounts payable and accrued expenses	141,439	(11,174)
Refundable advances	26,915	1,631
Deferred rent payable	-	(10,653)
Net cash provided (used) by operating activities	245,606	(82,616)
Investing Activities		
Purchase of property and equipment	(8,936)	-
Net cash used by investing activities	(8,936)	-
Net increase (decrease) in cash	236,670	(82,616)
Cash and cash equivalents, beginning of year	244,138	326,754
Cash and cash equivalents, end of year	$ 480,808	244,138
Supplemental disclosures:		
Cash paid for interest expense	$ 255,563	11,250
Non-cash investing and financing activities:		
Land and building acquired under capital lease	$ 2,600,000	-

See accompanying notes to financial statements.

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies

General

East Chicago 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 that were assumed from Lighthouse Academies of Indiana, Inc. as of July 1, 2013. 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

(1) Summary of Significant Accounting Policies, Continued

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.

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	30 years
Leasehold improvements............................	10 years
Furniture and equipment	5 years

(1) Summary of Significant Accounting Policies, Continued

Deferred Rent Payable

The operating lease on the school facility contained a provision for future rent increases. In accordance with generally accepted accounting principles, the School recorded monthly rent expense equal to the total payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense and recorded and the amount paid was reflected as deferred rent payable in the accompanying statements of financial position. With the execution of a new capital lease on the school facility (see Note 4), the balance of the deferred rent payable has been recorded in the cost of the building.

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.

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.

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

Repayment of Common School Fund loans	$1,869,187
Repayment of accrued interest on Common School Fund loans	265,503
	2,134,690
Elimination of School funding	(2,158,293)
	$ (23,603)

(3) Long-Term Debt

Long-term debt at June 30, 2014 and 2013 was comprised of a note payable to Lighthouse Academies, Inc. in the amount of $250,000. Lighthouse Academies, Inc. is under contract to manage the School. The note provides for monthly interest payments at 4.5% per annum. Principal payments are due and payable at such times as the School has unencumbered funds to make a payment when considering other debts then currently owing. The remaining unpaid balance is due in November 2014. The note is secured by certain items of personal property.

(4) Leases

In July 2010, the School executed a 10-year sublease with East Chicago Lighthouse Facility, LLC on a building used as its school facility. East Chicago Lighthouse Facility, LLC is indirectly owned by Lighthouse Academies, Inc., which provides management services to the School. The lease required initial minimum monthly payments of $15,000, with an annual escalator of 2%.

The School also executed a lease agreement with the Roman Catholic Diocese of Gary with regard to a second facility that became effective July 15, 2011. This lease required minimum monthly rental of $8,334 and expired on July 14, 2013.

On August 28, 2013, the land and building comprising the school facility was acquired by CFM – NW Indiana, 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 – NW Indiana, LLC, the existing lease was cancelled and the School entered into a new 30-year lease agreement with CFM – NW Indiana, LLC on the same facility, which is accounted for as a capital lease. Under the lease agreement, CFM – NW Indiana, LLC agreed to make improvements to the facility at an approximate cost of $3,300,000. 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 facility. In addition, the School is responsible for utilities, maintenance, and insurance. The School has the option to purchase the facility 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 $2,811,103 and $66,453, respectively.

(4) 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:

Year Ended June 30:	
2015	$ 335,273
2016	334,898
2017	334,810
2018	335,622
2019	335,185
Thereafter	8,378,007
	10,053,795
Less: amount representing interest	(7,453,795)
	$ 2,600,000

The School also leases textbooks, furniture and equipment on a regular basis. These 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 $72,714 and $322,483, respectively. Obligations under operating leases as of June 30, 2014 totaled $6,882 due in 2015.

(5) 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. Expense under this agreement was $55,777 and $64,749 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 $283,984 and $400,104 for the years ended June 30, 2014 and 2013, respectively. This agreement remains in effect until June 30, 2016.

(6) 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 will match 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 for the years ended June 30, 2014 and 2013 was $33,219 and $40,554, respectively.

(7) Refundable Advances

The School has been awarded grants from the Indiana Department of Education and other sources 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 $47,332 and $20,417, respectively.

(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.

(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 among the programs and services benefited. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

	2014		
	Program Services	Management and General	Fund-raising
Salaries and wages	$ 1,556,435	396,646	-
Employee benefits	353,889	90,186	-
Staff development and recruitment	30,115	-	-
Academic services - Lighthouse Academies	-	289,743	-
Authorizer’s oversight fee	-	55,777	-
Food service	250,144	-	-
Transportation service	154,928	-	-
Other professional services	3,913	46,894	-
Property and textbook rental	78,559	-	-
Classroom, kitchen and office supplies	150,943	7,054	-
Occupancy	198,026	50,469	-
Depreciation	72,864	18,569	-
Interest	-	255,563	-
Other	22,611	33,204	18,136
	$2,872,427	1,244,105	18,136

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	2013		
	Program Services	Management and General	Fund-raising
Salaries and wages	$2,224,977	301,494	-
Employee benefits	466,360	63,194	-
Staff development and recruitment	78,649	-	-
Academic services - Lighthouse Academies	-	406,301	-
Authorizer's oversight fee	-	64,749	-
Food service	392,540	-	-
Transportation service	248,503	-	-
Other professional services	150,724	61,086	-
Property and textbook rental	59,528	-	-
Classroom, kitchen and office supplies	205,316	15,423	-
Occupancy	529,956	71,811	-
Depreciation	83,168	11,270	-
Interest	-	67,173	-
Other	66,783	35,907	38,979
	$4,506,504	1,098,408	38,979

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		$ 86,002
National School Lunch Program	10.555		185,693
Total for cluster			271,695
Fresh Fruit and Vegetable Program	10.582		18,851
Total for federal grantor agency			290,546
U.S. DEPARTMENT OF EDUCATION			
Pass-Through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	12-9595/13-9595	407,934
Special Education Cluster			
Special Education - Grants to States	84.027	14214-501-PN01	79,853
Charter Schools Program	84.282		2,919
English Language Acquisition Grants	84.365		17,240
Improving Teacher Quality State Grants	84.367		51,573
Total for federal grantor agency			559,519
Total federal awards expended			$ 850,065

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

EAST CHICAGO 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 East Chicago 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 **East Chicago 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. 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.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

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.

Fitzgerald / Isaac LLC

Indianapolis, IN
February 12, 2015

Fitzgerald Isaac LLC
Certified Public Accountants

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 **East Chicago 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.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

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, East Chicago 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.

Report on Internal Control Over Compliance

Management of East Chicago 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

FitzGerald / Isaac LLC

Indianapolis, IN
February 12, 2015

EAST CHICAGO 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:	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:	None Reported
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:	No

EAST CHICAGO 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:

CFDA Number	Name of Federal Program or Cluster
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

No matters were reportable.

III. Federal Award Findings and Questioned Costs

No matters were reportable.

EAST CHICAGO 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 East Chicago 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.*