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March 3, 2015

Charter School Board  
Indianapolis Lighthouse Charter School  
1780 Sloan Avenue  
Indianapolis, IN 46123

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 Indianapolis 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 finding in the report. Pages 23 and 24 contain one current audit finding. Management's response and planned corrective action is located in the Attachment.

The Financial Statements and Independent Auditors' Report is filed in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL**

*Financial Statements and Federal Single Audit Report*

*June 30, 2014 and 2013*

INDIANAPOLIS 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 **Indianapolis Lighthouse Charter School** (an operating component of Lighthouse Academies of 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 Indianapolis 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 January 27, 2015 on our consideration of Indianapolis 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 Indianapolis Lighthouse Charter School's internal control over financial reporting and compliance.



Indianapolis, IN  
January 27, 2015

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Statements of Financial Position

	June 30	
Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 870,282	596,839
Accounts receivable:		
Grants	312,227	178,450
Other	-	8,129
Prepaid expenses	28,000	65,557
Total current assets	1,210,509	848,975
Property and equipment:		
Land	130,000	150,000
Building and improvements	6,035,591	3,748,428
Outdoor equipment	34,250	34,250
Furniture and equipment	299,063	299,063
Less: accumulated depreciation	(463,767)	(1,152,961)
Property and equipment, net	6,035,137	3,078,780
Deferred loan costs, net of amortization	-	7,719
	\$ 7,245,646	3,935,474
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 417,101	250,387
Refundable advances	30,321	11,336
Current portion of capital lease obligations	21,763	-
Current portion of long-term debt	-	3,057,141
Total current liabilities	469,185	3,318,864
Capital lease obligations	6,153,237	-
Total liabilities	6,622,422	3,318,864
Unrestricted net assets	623,224	616,610
	\$ 7,245,646	3,935,474

See accompanying notes to financial statements.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Statements of Activities

	Year Ended June 30	
	2014	2013
<u>Revenue and Support</u>		
State education support	\$ 5,629,366	4,363,879
Grant revenue	1,580,907	1,798,964
Student fees	20,232	22,210
Fundraising income	8,138	19,477
Other	19,524	6,749
Total revenue and support	<u>7,258,167</u>	<u>6,211,279</u>
<u>Expenses</u>		
Program services	5,505,532	4,805,254
Management and general	1,721,758	1,305,234
Fundraising	24,263	18,192
Total expenses	<u>7,251,553</u>	<u>6,128,680</u>
Change in net assets before non-operating revenue	6,614	82,599
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	<u>-</u>	<u>891,882</u>
Change in net assets	6,614	974,481
Net assets (deficiency), beginning of year	<u>616,610</u>	<u>(357,871)</u>
Net assets, end of year	<u>\$ 623,224</u>	<u>616,610</u>

See accompanying notes to financial statements.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2014	2013
Change in net assets	\$ 6,614	974,481
Adjustment to reconcile change in net assets to cash flows from operating activities:		
Gain due to changes in legislative funding	-	(891,882)
Depreciation	239,479	214,980
Amortization	7,719	10,284
Change in:		
Accounts receivable	(125,648)	(173,627)
Prepaid expenses	37,557	(16,312)
Accounts payable and accrued expenses	166,714	126,342
Refundable advances	18,985	(23,549)
Net cash provided by operating activities	351,420	220,717
Investing Activities		
Acquisitions of property and equipment	(68,431)	-
Net cash used by investing activities	(68,431)	-
Financing Activities		
Principal payments on mortgage loan	(9,546)	(112,089)
Net cash used by financing activities	(9,546)	(112,089)
Net increase in cash	273,443	108,628
Cash and cash equivalents, beginning of year	596,839	488,211
Cash and cash equivalents, end of year	\$ 870,282	596,839
Supplemental disclosures:		
Cash paid for interest expense	\$ 569,201	175,886
Non-cash investing and financing activities:		
Land and building acquired under capital lease	\$ 6,175,000	-

See accompanying notes to financial statements.

# INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

## Notes to Financial Statements

June 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies

#### General

Indianapolis 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 two 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.

#### 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.

#### Subsequent Events

The School evaluated subsequent events through January 27, 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.

INDIANAPOLIS 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 .....	10 to 30 years
Outdoor equipment.....	10 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, 2014 and 2013, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

## INDIANAPOLIS 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 2013, 2012, and 2011 are open to audit for both federal and state purposes.

##### Deferred Loan Costs

Costs associated with debt issuance are amortized over the life of the related debt obligation. Amortization of deferred loan costs is included in interest expense and amounted to \$7,719 and \$10,284 for the years ended June 30, 2014 and 2013, respectively.

#### (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.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(2) Legislative Funding Changes, Continued

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 gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$2,616,623
Repayment of accrued interest on Common School Fund loans....	<u>457,198</u>
	3,073,821
Elimination of School funding .....	<u>(2,181,939)</u>
	\$ <u>891,882</u>

(3) Long-Term Debt

Long-term debt at June 30, 2013 was comprised of a mortgage loan payable in monthly installments of principal and interest, with the unpaid balance due on March 30, 2014. Interest was variable as determined by a formula based on the LIBOR rate. The rate at June 30, 2013 approximated 4.5%. The loan also required a monthly payment of \$2,871 over the term of the loan into a "payment reserve fund". The note was secured by a first priority interest on the land, building and personal property and guaranteed by Local Initiatives Support Corporation and Annie E. Casey Foundation.

On August 28, 2013, Lighthouse Academies of Indiana, Inc. ("LAI") sold the building to CFM – Indianapolis, LLC, an entity affiliated with Lighthouse Academies, Inc., which is under contract to manage the School. In exchange, CFM – Indianapolis, LLC assumed the mortgage loan obligation. At the same time, LAI entered into a long-term lease with CFM – Indianapolis, LLC to retain the use of the School facility (see Note 4).

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(4) Leases

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 School entered into a 30-year lease agreement with CFM – Indianapolis, LLC on the same facility, which is accounted for as a capital lease. Under the lease agreement, CFM – Indianapolis, LLC agreed to make improvements to the facility at an approximate cost of \$5,777,000. 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. At June 30, 2014, the cost and accumulated depreciation relating to these assets were \$6,165,591 and \$167,655, respectively.

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 .....	\$ 744,849
2016 .....	745,445
2017 .....	746,273
2018 .....	747,101
2019 .....	747,432
Thereafter.....	<u>18,665,547</u>
	22,396,647
Less: amount representing interest .....	<u>(16,221,647)</u>
	<u>\$ 6,175,000</u>

## INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

### Notes to Financial Statements

#### (5) 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 LAI 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 \$44,053 and \$39,492, respectively.

#### (6) 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 relating to the School were \$504,898 and \$435,385 for the years ended June 30, 2014 and 2013, 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, 2019, and is renewable by mutual consent of the School and its charter sponsor.

#### (7) 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 \$30,321 and \$11,336, respectively.

## INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

### Notes to Financial Statements

#### (8) 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, 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.

INDIANAPOLIS 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 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:

	<u>2014</u>		
	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fund-</u> <u>raising</u>
Salaries and wages.....	\$2,668,471	305,854	-
Employee benefits .....	685,997	78,627	-
Staff development and recruitment .....	56,594	24,748	-
Academic services - Lighthouse Academies....	-	524,229	-
Food service .....	404,295	-	-
Transportation service .....	525,465	-	-
Other professional services .....	100,766	84,913	-
Classroom, kitchen and office supplies.....	379,289	18,504	-
Occupancy .....	414,773	47,540	-
Depreciation .....	221,779	25,419	-
Interest .....	-	569,201	-
Other .....	<u>48,103</u>	<u>42,723</u>	<u>24,263</u>
	<u>\$5,505,532</u>	<u>1,721,758</u>	<u>24,263</u>

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	<u>2013</u>		
	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fund-</u> <u>raising</u>
Salaries and wages.....	\$2,370,198	256,969	-
Employee benefits .....	556,305	60,313	-
Staff development and recruitment .....	30,227	53,688	-
Academic services - Lighthouse Academies....	-	452,743	-
Food service .....	351,481	-	-
Transportation service .....	482,411	-	-
Other professional services .....	69,308	92,049	-
Classroom, kitchen and office supplies.....	300,285	18,257	-
Occupancy .....	400,289	43,398	-
Depreciation .....	203,230	22,034	-
Interest .....	-	260,595	-
Other .....	<u>41,520</u>	<u>45,188</u>	<u>18,192</u>
	<u>\$4,805,254</u>	<u>1,305,234</u>	<u>18,192</u>

INDIANAPOLIS 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		\$ 272,870
National School Lunch Program	10.555		100,302
Total for cluster			<u>373,172</u>
Fresh Fruit and Vegetable Program	10.582		41,606
Total for federal grantor agency			<u>414,778</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	13-9575/14-9575	695,058
Special Education Cluster			
Special Education - Grants to States	84.027	14213-520-PN01 14214-520-PN01	175,533
Charter Schools Program	84.282	SY2012-13-013	21,936
Improving Teacher Quality State Grants	84.367		70,836
Total for federal grantor agency			<u>963,363</u>
Total federal awards expended			<u><u>\$1,378,141</u></u>

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

INDIANAPOLIS 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 Indianapolis 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 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 **Indianapolis 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 January 27, 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.

## **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  
January 27, 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 Indiana, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited **Indianapolis 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, Indianapolis 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 2014-001. Our opinion on the major federal program is not modified with respect to these matters.

Indianapolis 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 Indianapolis 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, we identified one deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

Indianapolis 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.

A handwritten signature in black ink, appearing to read "A. J. ... / ...".

Indianapolis, IN  
January 27, 2015

INDIANAPOLIS 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:	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

INDIANAPOLIS 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:	No

**II. Financial Statement Findings**

No matters are reportable.

**III. Federal Award Findings and Questioned Costs**

FINDING NO. 2014-001 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

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

**III. Federal Award Findings and Questioned Costs, Continued**

Questioned  
Costs

Condition

For some employees, the School's semi-annual certifications did not support their wages being claimed for Title I.

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."

Cause

The School did not verify that semi-annual certifications contained all personnel claimed for reimbursement under Title I.

Effect

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

Context

The semi-annual certifications did not properly substantiate the personnel charges to the Title I program.

\$ -0-

Recommendation

We recommend that the School implement a process for corroborating employees listed on the semi-annual certifications with those claimed for Title I reimbursement.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Other Reports

Year Ended June 30, 2014

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

Supplemental Audit Report of Indianapolis 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.

January 27, 2015

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

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

Dear Sir:

Finding No. 2014-1 EMPLOYEE TIME RECORDS

Audit Comment: For some employees, the School's semi-annual certifications did not support their wages being claimed for Title I.

Cause: The school did not verify that semi-annual certifications contained all personnel claimed for reimbursement under Title I.

School Response: The School completed a Semi-Annual Certification, but it was not verified. 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.