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January 5, 2017

Charter School Board
Lighthouse Academies of Indiana, Inc.
1780 Sloan Avenue
Indianapolis, IN 46203

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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 Lighthouse Academies of Indiana, Inc., as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for Lighthouse Academies of Indiana, Inc. 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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015



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Independent Auditors' Report

The Board of Directors
Lighthouse Academies of Indiana, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Lighthouse Academies of Indiana, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and change in net assets, functional expenses, 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.

Auditors' 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 auditors' 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 auditors consider 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 Lighthouse Academies of Indiana, Inc. as of June 30, 2016 and 2015, and the changes in its net assets, its functional expenses, 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 is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Likewise, the schedule of financial position by school and schedule of activities by school on pages 14 and 15, respectively, are presented for purposes of additional analysis and are 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of Lighthouse Academies of Indiana, Inc.'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 Lighthouse Academies of Indiana, Inc.'s internal control over financial reporting and compliance.

DONOVAN

A handwritten signature in dark ink, appearing to read "Donovan", is written over a light green rectangular background.

Indianapolis, Indiana
December 20, 2016

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 716,654	\$ 484,871
Grants receivable	612,078	238,859
Prepaid expenses	<u>166,431</u>	<u>121,591</u>
<i>Total current assets</i>	1,495,163	845,321
PROPERTY AND EQUIPMENT, NET	<u>11,172,715</u>	<u>11,285,328</u>
TOTAL ASSETS	<u><u>\$ 12,667,878</u></u>	<u><u>\$ 12,130,649</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 774,333	\$ 634,033
Security deposit	27,000	27,000
Refundable advances	50,000	-
Current portion of capital lease obligations	<u>52,291</u>	<u>44,989</u>
<i>Total current liabilities</i>	903,624	706,022
LONG-TERM LIABILITIES		
Capital lease obligations, net of current portion	<u>11,363,808</u>	<u>11,416,099</u>
<i>Total liabilities</i>	12,267,432	12,122,121
NET ASSETS	<u>400,446</u>	<u>8,528</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,667,878</u></u>	<u><u>\$ 12,130,649</u></u>

See independent auditors' report and accompanying notes to the financial statements

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
State education support	\$ 8,393,329	\$ 8,276,638
Grant revenue	3,002,662	2,060,486
Contributions	33,934	-
Rent	341,196	330,000
Student fees	31,050	11,321
Fundraising income	9,761	9,101
Other income	<u>102,322</u>	<u>55,377</u>
<i>Total revenue and support</i>	<u>11,914,254</u>	<u>10,742,923</u>
EXPENSES		
Program services	9,732,016	9,899,514
Management and general	1,774,802	1,765,361
Fundraising	<u>15,518</u>	<u>15,061</u>
<i>Total expenses</i>	<u>11,522,336</u>	<u>11,679,936</u>
CHANGE IN NET ASSETS	391,918	(937,013)
NET ASSETS, BEGINNING OF YEAR	<u>8,528</u>	<u>945,541</u>
NET ASSETS, END OF YEAR	<u><u>\$ 400,446</u></u>	<u><u>\$ 8,528</u></u>

See independent auditors' report and accompanying notes to the financial statements

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2016 and 2015

	2016				2015			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
FUNCTIONAL EXPENSES								
Salaries and wages	\$ 3,991,904	\$ 678,237	\$ -	\$ 4,670,141	\$ 4,061,416	\$ 650,326	\$ -	\$ 4,711,742
Employee benefits	876,541	96,084	-	972,625	984,009	157,562	-	1,141,571
Staff development and recruitment	25,851	38,321	-	64,172	61,026	32,993	-	94,019
Academic services - Lighthouse Academies	-	804,559	-	804,559	-	747,589	-	747,589
Food service	575,424	-	-	575,424	706,128	-	-	706,128
Transportation service	1,013,154	-	-	1,013,154	852,960	-	-	852,960
Other professional services	154,541	84,951	-	239,492	153,786	99,004	-	252,790
Property and textbook rental	50,629	-	-	50,629	48,107	-	-	48,107
Classroom, kitchen, and office supplies	182,457	44,388	-	226,845	102,446	65,890	-	168,336
Occupancy	978,821	-	-	978,821	1,061,211	-	-	1,061,211
Depreciation	441,127	-	-	441,127	452,231	-	-	452,231
Interest	1,361,510	-	-	1,361,510	1,366,463	-	-	1,366,463
Other	80,057	28,262	15,518	123,837	49,731	11,997	15,061	76,789
<i>Total functional expenses</i>	<u>\$ 9,732,016</u>	<u>\$ 1,774,802</u>	<u>\$ 15,518</u>	<u>\$ 11,522,336</u>	<u>\$ 9,899,514</u>	<u>\$ 1,765,361</u>	<u>\$ 15,061</u>	<u>\$ 11,679,936</u>

See independent auditors' report and accompanying notes to the financial statements

LIGHTHOUSE ACADEMIES OF INDIANA, INC.**STATEMENTS OF CASH FLOWS****For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 391,918	\$ (937,013)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	441,127	452,231
Changes in certain assets and liabilities:		
Grants receivable	(373,219)	221,138
Prepaid expenses	(44,840)	(70,591)
Accounts payable and accrued expenses	140,300	(340,555)
Security deposit	-	27,000
Refundable advances	<u>50,000</u>	<u>(33,610)</u>
<i>Net cash provided (used) by operating activities</i>	605,286	(681,400)
INVESTING ACTIVITIES		
Purchases of property and equipment	(328,514)	(64,831)
FINANCING ACTIVITIES		
Principal repayment of capital lease obligations	<u>(44,989)</u>	<u>(38,912)</u>
NET CHANGE IN CASH	231,783	(785,143)
CASH, BEGINNING OF YEAR	<u>484,871</u>	<u>1,270,014</u>
CASH, END OF YEAR	<u><u>\$ 716,654</u></u>	<u><u>\$ 484,871</u></u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	<u><u>\$ 1,361,510</u></u>	<u><u>\$ 1,366,463</u></u>

See independent auditors' report and accompanying notes to the financial statements

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Lighthouse Academies of Indiana, Inc. ("LAI") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, and the organizer and governing body of two charter schools located in Indianapolis, Indiana. Each of the schools is a public charter school established under Indiana Code 20-24 and sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis ("Mayor's Office"). For the year ended June 30, 2015, LAI operated only one school. A second school was opened effective July 1, 2015. 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 charter schools it operates.

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.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the schools receive an amount per student in relation to the funding received by other public schools in the same geographic areas. 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 LAI's revenue is the product of cost reimbursement grants. Accordingly, LAI recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

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.

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

Property and Equipment – Purchases of 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:

Buildings and improvements	30 years
Outdoor equipment	10 years
Furniture and equipment	5 years

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2016 and 2015, 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 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. Tax years ending after 2012 are open to audit for both federal and state purposes.

Subsequent Events – LAI evaluated subsequent events through December 20, 2016, 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.

Reclassifications – Certain figures for 2015 that were previously reported have been reclassified for comparative purposes.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment was comprised of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 367,700	\$ 367,700
Building and improvements	11,673,724	11,617,944
Outdoor equipment	66,996	34,250
Furniture and equipment	869,317	659,868
	<u>12,977,737</u>	<u>12,679,762</u>
Less: accumulated depreciation	<u>(1,805,022)</u>	<u>(1,394,434)</u>
	<u>\$ 11,172,715</u>	<u>\$ 11,285,328</u>

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 3 - COMMITMENTS

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, plus any necessary travel costs. Total expense under this agreement for both academic oversight and travel reimbursement was \$804,559 and \$747,589 for the years ended June 30, 2016 and 2015, respectively. This agreement remains in effect as long as the school charters remain in effect.

NOTE 4 - LEASES

The land and buildings comprising both schools' facilities were acquired by CFM – Indianapolis, LLC, an entity controlled by CFM, Inc. CFM, Inc. was created by the schools' 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.

Concurrently with the purchase of the facilities by CFM – Indianapolis, LLC, LAI entered into a 30-year lease agreement with CFM – Indianapolis, LLC on the same facilities, which is accounted for as a capital lease. Under the lease agreement, CFM – Indianapolis, LLC agreed to make improvements to the facilities at an approximate cost of \$6,083,000. The lease requires LAI to make rental payments equal to CFM – Indianapolis, LLC's debt service obligation on bonds that it issued to purchase the facilities. In addition, LAI is responsible for utilities, maintenance, and insurance. LAI has the option to purchase the facilities at any time for \$1 plus the remaining balance due on the bond debt. At June 30, 2016, the cost and accumulated depreciation relating to these assets were \$11,920,813 and \$1,089,986, respectively (\$11,920,813 and \$704,155 as of June 30, 2015).

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, 2016:

Year Ended June 30:	
2017	\$ 1,408,062
2018	1,409,625
2019	1,410,249
2020	1,409,938
2021	1,408,687
Thereafter	<u>32,399,389</u>
	39,445,950
Less: amount representing interest	<u>(28,029,851)</u>
	\$ 11,416,099

LAI has an agreement to sublease a portion of one of its buildings to Tindley Accelerated Schools, Inc. The lease carried a two-year term ending June 2016, with the option for a one-year extension. The one-year extension was taken, with the lease ending June 2017. Base rent income was \$340,000 and \$330,000 for the years ended June 30, 2016 and 2015, respectively.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.**NOTES TO THE FINANCIAL STATEMENTS****For the Years Ended June 30, 2016 and 2015****NOTE 4 - LEASES, Continued**

As a condition of the lease, LAI is required to meet certain financial covenants, specifically:

1. Cash on hand must equal at least 45 days of operating expenses, and
2. Net available corporate income, as defined, must equal at least 1.10 times base rent under the lease.

As of June 30, 2016, LAI was not in compliance with the covenant for cash on hand. As of June 30, 2015, LAI was not in compliance with either of these covenants. Under the terms of the lease agreement, the lessor has the right to terminate LAI's possession of the school facilities. LAI has requested a waiver from CFM – Indianapolis, LLC for the violation of the financial covenant. LAI has received a waiver for its violation of the financial covenant.

The covenants were calculated as follows:

	<u>2016</u>	<u>2015</u>
CASH AS OF JUNE 30	<u>\$ 716,654</u>	<u>\$ 484,871</u>
OPERATING EXPENSES		
Program services	\$ 9,757,810	\$ 9,502,054
Management and general	1,749,008	2,162,821
Fundraising	<u>15,518</u>	<u>15,061</u>
<i>Operating expenses, total</i>	<u>\$ 11,522,336</u>	<u>\$ 11,679,936</u>
Cash divided by operating expenses	6.23%	4.16%
Days per year	<u>365</u>	<u>365</u>
DAYS CASH ON HAND	<u>23</u>	<u>15</u>
NET AVAILABLE CORPORATE INCOME		
Excess (deficiency) of revenue over expenses	\$ 391,918	\$ (937,013)
Interest expense related to capital lease	1,361,510	1,366,463
Depreciation	<u>441,127</u>	<u>452,331</u>
<i>Net available corporate income, total</i>	<u>\$ 2,194,555</u>	<u>\$ 881,781</u>
Base rent for the year	<u>\$ 1,406,500</u>	<u>\$ 1,405,375</u>
RATIO OF NET AVAILABLE CORPORATE INCOME TO BASE RENT	<u>1.56</u>	<u>.63</u>

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 4 - LEASES, Continued

LAI has three leases for copiers requiring monthly payments through January 2017. Total lease expense for the copiers was \$19,296 and \$48,107 for the years ended June 30, 2016 and 2015, respectively.

NOTE 5 - RETIREMENT PLAN

All LAI personnel are employees of Lighthouse Academies, Inc., which provides management services to LAI. LAI personnel are eligible to participate in the Lighthouse Academies, Inc. Section 401(k) retirement plan. Under the plan, LAI matches 100% of employee contributions up to 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 2016 or 2015. Retirement plan expense for the years ended June 30, 2016 and 2015 was \$98,323 and \$81,716, respectively.

NOTE 6 - REFUNDABLE ADVANCES

LAI 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, 2016, LAI had refundable grant advances in excess of expenditures of \$50,000.

NOTE 7 - RISKS AND UNCERTAINTIES

LAI provides education services to families residing in Marion and surrounding counties of 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 LAI. Additionally, LAI is subject to monitoring and audit by state and federal agencies. These examinations may result in additional liability to be imposed.

Financial instruments that potentially subject LAI to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2016 and 2015, substantially all receivable balances were 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.

NOTE 8 - 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 programs and management services.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<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		\$ 266,464
National School Lunch Program	10.555		459,384
Total for cluster			725,848
Fresh Fruit and Vegetable Program	10.582		1,821
Total for federal grantor agency			727,669
<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		1,109,347
Special Education Cluster			
Special Education - Grants to States	84.027	14215-520-PN01	166,085
Charter Schools Program	84.282		147,140
Improving Teacher Quality State Grants	84.367		90,127
Total for federal grantor agency			1,512,699
Total federal awards expended			\$ 2,240,368

See independent auditors' report and accompanying notes to this schedule

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lighthouse Academies of Indiana, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lighthouse Academies of Indiana, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Lighthouse Academies of Indiana, Inc.

NOTE 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2016

	<u>South</u>	<u>East</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 648,901	\$ 67,753	\$ -	\$ 716,654
Accounts receivable:				
Grants	263,746	348,332	-	612,078
Other	290,953	14,980	(305,933)	-
Prepaid expenses	<u>129,748</u>	<u>36,683</u>	<u>-</u>	<u>166,431</u>
<i>Total current assets</i>	<u>1,333,348</u>	<u>467,748</u>	<u>(305,933)</u>	<u>1,495,163</u>
PROPERTY AND EQUIPMENT, NET	<u>5,871,903</u>	<u>5,300,812</u>	<u>-</u>	<u>11,172,715</u>
	<u><u>\$ 7,205,251</u></u>	<u><u>\$ 5,768,560</u></u>	<u><u>\$ (305,933)</u></u>	<u><u>\$ 12,667,878</u></u>
LIABILITIES AND NET ASSETS (DEFICIENCY)				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 602,984	\$ 477,282	\$ (305,933)	\$ 774,333
Security deposit	-	27,000	-	27,000
Refundable advance	-	50,000	-	50,000
Current portion of capital lease obligations	<u>29,066</u>	<u>23,225</u>	<u>-</u>	<u>52,291</u>
<i>Total current liabilities</i>	<u>632,050</u>	<u>577,507</u>	<u>(305,933)</u>	<u>903,624</u>
LONG-TERM LIABILITIES				
Capital lease obligations	<u>6,099,084</u>	<u>5,264,724</u>	<u>-</u>	<u>11,363,808</u>
<i>Total liabilities</i>	<u>6,731,134</u>	<u>5,842,231</u>	<u>(305,933)</u>	<u>12,267,432</u>
NET ASSETS (DEFICIENCY)	<u>474,117</u>	<u>(73,671)</u>	<u>-</u>	<u>400,446</u>
	<u><u>\$ 7,205,251</u></u>	<u><u>\$ 5,768,560</u></u>	<u><u>\$ (305,933)</u></u>	<u><u>\$ 12,667,878</u></u>

See independent auditors' report

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL
For the Year Ended June 30, 2016

	<u>South</u>	<u>East</u>	<u>Total</u>
REVENUE AND SUPPORT			
State education support	\$ 6,657,721	\$ 1,735,608	\$ 8,393,329
Grant revenue	2,346,952	655,710	3,002,662
Contributions	6,018	27,916	33,934
Rent	1,200	339,996	341,196
Student fees	27,432	3,618	31,050
Fundraising	8,287	1,474	9,761
Other	<u>101,050</u>	<u>1,272</u>	<u>102,322</u>
<i>Total revenue and support</i>	<u>9,148,660</u>	<u>2,765,594</u>	<u>11,914,254</u>
EXPENSES			
Program services	7,260,108	2,471,908	9,732,016
Management and general	1,299,622	475,180	1,774,802
Fundraising	<u>15,518</u>	<u>-</u>	<u>15,518</u>
<i>Total expenses</i>	<u>8,575,248</u>	<u>2,947,088</u>	<u>11,522,336</u>
CHANGE IN NET ASSETS	573,412	(181,494)	391,918
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>(99,295)</u>	<u>107,823</u>	<u>8,528</u>
NET ASSETS (DEFICIENCY), END OF YEAR	<u><u>\$ 474,117</u></u>	<u><u>\$ (73,671)</u></u>	<u><u>\$ 400,446</u></u>

See independent auditors' report



***INDEPENDENT AUDITORS' 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 Lighthouse Academies of Indiana, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lighthouse Academies of Indiana, Inc.'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 Lighthouse Academies of Indiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Academies of Indiana, Inc.'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 Lighthouse Academies of Indiana, Inc.'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 Lighthouse Academies of Indiana, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Academies of Indiana, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

A handwritten signature in dark ink, appearing to read "Donovan", with a stylized, cursive script.

Indianapolis, Indiana
December 20, 2016



***INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE***

The Board of Directors
Lighthouse Academies of Indiana, Inc.

Report on Compliance for Each Major Federal Program

We have audited Lighthouse Academies of Indiana, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2016. The School's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lighthouse Academies of Indiana, Inc.'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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 Lighthouse Academies of Indiana, Inc.'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 Lighthouse Academies of Indiana, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Lighthouse Academies of Indiana, Inc. 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, 2016.

Report on Internal Control over Compliance

Management of Lighthouse Academies of Indiana, Inc. 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 Lighthouse Academies of Indiana, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 the Uniform Guidance, 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 Lighthouse Academies of Indiana, Inc.'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN



Indianapolis, Indiana
December 20, 2016

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
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 use to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

No matters are reportable.

III. Federal Award Findings and Questioned Costs

No matters are reportable.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

FINDING 2015-001 (FINANCIAL STATEMENT FINDING)

FINANCIAL ACCOUNTING
MATERIAL WEAKNESS

Condition

Through our audit, various misstatements were identified that resulted in an overstatement of operating results for the 2015 fiscal year. Accounts affected included the liability for accrued compensation, bond indebtedness, and grant revenues.

Recommendation

The auditors recommended that procedures should be implemented to assure that general ledger accounts are supported by accurate and timely account reconciliations. Financial reports should also be subject to formal internal review to assure that they properly reflect all significant transactions.

Current Status

No further action is required. LAI was in compliance for the 2016 fiscal year.

FINDING 2015-002 (FEDERAL AWARD FINDING)

EMPLOYEE TIME RECORDS
SIGNIFICANT DEFICIENCY

Condition

Semi-annual certifications and time-and-effort logs were not provided to support the allocation of wages claimed for the Title I program.

Recommendation

The auditors recommended that LAI implement a process to assure that semi-annual certifications and time-and-effort logs are maintained.

Current Status

No further action is required. LAI was in compliance for the 2016 fiscal year.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

OTHER REPORT

For the Year Ended June 30, 2016

The reports presented herein were prepared in addition to another official report prepared for Lighthouse Academies of Indiana, Inc. as listed below:

Supplemental Audit Report of Lighthouse Academies of Indiana, Inc.

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*.