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February 16, 2016

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, 2014 to June 30, 2015. 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 Lighthouse Academies of Indiana, Inc., as of June 30, 2015, 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 report contains one current financial statement finding and one current federal grant award finding. The details of the findings may be found in the Schedule of Findings and Questions costs. Management's response and planned corrective action is located in the Attachment.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report is 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 and Federal Single Audit Report

June 30, 2015 and 2014

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

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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 **Lighthouse Academies of Indiana, Inc.**, which comprise of statements of financial position as of June 30, 2015 and 2014, 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 **Lighthouse Academies of Indiana, Inc.** as of June 30, 2015 and 2014, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, **Lighthouse Academies of Indiana, Inc.** elected to not renew the charter for its Monument Lighthouse Charter School and to cease operations of that charter school as of June 30, 2014. Assets remaining after payment of obligations were utilized by the organization's remaining charter school.

Other Matter

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 on page 16, 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. Likewise, the schedule of financial position by school on page 18 and the schedule of activities by school on page 19 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 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 October 30, 2015 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.



Indianapolis, IN
October 30, 2015

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2015	2014
Current assets:		
Cash and cash equivalents	\$ 484,871	1,270,014
Accounts receivable:		
Grants	238,859	450,544
Other	-	9,453
Prepaid expenses	121,591	51,000
Total current assets	845,321	1,781,011
Property and equipment, net	11,285,328	11,672,728
	\$ 12,130,649	13,453,739
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 634,033	974,588
Security deposit	27,000	-
Refundable advances	-	33,610
Current portion of capital lease obligations	44,989	38,912
Total current liabilities	706,022	1,047,110
Capital lease obligations	11,416,099	11,461,088
Total liabilities	12,122,121	12,508,198
Unrestricted net assets	8,528	945,541
	\$ 12,130,649	13,453,739

See accompanying notes to financial statements.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Statements of Activities

	Year Ended June 30	
	2015	2014
<u>Revenue and Support</u>		
State education support	\$ 8,276,638	10,394,310
Grant revenue	2,060,486	2,961,872
Rent	330,001	-
Student fees	11,321	40,854
Fundraising income	9,101	17,159
Other	55,376	69,814
Total revenue and support	<u>10,742,923</u>	<u>13,484,009</u>
<u>Expenses</u>		
Program services	9,502,054	11,465,844
Management and general	2,162,821	2,410,225
Fundraising	15,061	29,093
Total expenses	<u>11,679,936</u>	<u>13,905,162</u>
Change in net assets	(937,013)	(421,153)
Net assets, beginning of year	<u>945,541</u>	<u>1,366,694</u>
Net assets end of year	<u>\$ 8,528</u>	<u>945,541</u>

See accompanying notes to financial statements.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
<u>Operating Activities</u>		
Change in net assets	\$ (937,013)	(421,153)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	452,231	468,923
Amortization of deferred loan costs	-	7,719
Change in:		
Accounts receivable	221,138	(180,388)
Prepaid expenses	(70,591)	65,945
Accounts payable and accrued expenses	(340,555)	552,140
Security deposit	27,000	-
Refundable advances	(33,610)	5,677
Net cash provided (used) by operating activities	(681,400)	498,863
 <u>Investing Activities</u>		
Acquisition of property and equipment	(64,831)	(265,531)
Net cash used by investing activities	(64,831)	(265,531)
 <u>Financing Activities</u>		
Principal repayments of Lighthouse Academies, Inc. loans	-	(80,135)
Principal repayments on capital lease liability	(38,912)	-
Principal repayments of other debt obligations	-	(9,546)
Net cash used by financing activities	(38,912)	(89,681)
 Net increase (decrease) in cash	(785,143)	143,651
Cash and cash equivalents, beginning of year	1,270,014	1,126,363
Cash and cash equivalents, end of year	\$ 484,871	1,270,014
 Supplemental disclosures:		
Cash paid for interest expense	\$ 1,366,463	1,055,715
 Non-cash investing and financing activities:		
Land and buildings acquired under capital lease	\$ -	11,500,000

See accompanying notes to financial statements.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(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 was the organizer and governing body of two charter schools located in Indianapolis, Indiana. Each of the schools were public charter schools established under Indiana Code 20-24 and sponsored by the Mayor's Office of the City of Indianapolis. Effective June 30, 2014, LAI opted not to renew the charter for one of the charter schools, leaving LAI with one charter school in Indianapolis under its control (see Note 2). 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 that 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.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Accounts Receivable

Accounts 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 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:

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

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 was \$7,719 for the year ended June 30, 2014.

Subsequent Events

LAI evaluated subsequent events through October 30, 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.

Reclassifications

Certain figures for 2014 that were previously reported have been reclassified for comparative purposes.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(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, 2015 and 2014, 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 2011 are open to audit for both federal and state purposes.

(2) Disposal Activities

In 2014, the board of directors of LAI opted to not renew the charter for the Monument Lighthouse Charter School. The board of directors approved the closure of the Monument Lighthouse Charter School effective June 30, 2014 and the transfer of all property and equipment to its Indianapolis Lighthouse Charter School. The school closure resulted in costs associated with lease cancellation and refund of cash resources to the State of Indiana, recorded as a charge of \$72,291 for the year ended June 30, 2014.

(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. Expense under this agreement was \$717,055 and \$939,766 for the years ended June 30 2015 and 2014, respectively. This agreement remains in effect so long as the school charters remain in effect.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(4) Property and Equipment

Property and equipment was comprised of the following as of June 30, 2015 and 2014:

Land.....	\$ 367,700	367,700
Buildings and improvements.....	11,617,944	11,553,113
Outdoor equipment.....	34,250	34,250
Furniture and equipment	<u>659,868</u>	<u>659,868</u>
	12,679,762	12,614,931
Less: accumulated depreciation.....	<u>(1,394,434)</u>	<u>(942,203)</u>
	<u>\$11,285,328</u>	<u>11,672,728</u>

(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 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 2015 or 2014. Retirement plan expense for the years ended June 30, 2015 and 2014 was \$81,716 and \$67,951, respectively.

(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, 2014, LAI had refundable grant advances in excess of expenditures of \$33,160.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(7) Leases

On August 28, 2013, the land and buildings comprising the school 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. One facility owned by LAI was sold to CFM – Indianapolis, LLC in exchange for CFM – Indianapolis, LLC assuming the mortgage loan obligation on the building.

Coincident 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, 2015, the cost and accumulated depreciation relating to these assets were \$11,920,813 and \$704,155, respectively (\$11,920,813 and \$315,445 as of June 30, 2014).

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, 2015:

<u>Year Ended June 30:</u>	
2016	\$ 1,406,500
2017	1,408,062
2018	1,409,625
2019	1,410,249
2020	1,409,937
Thereafter.....	<u>33,808,077</u>
	40,852,450
Less: amount representing interest	<u>(29,391,362)</u>
	<u>\$11,461,088</u>

LAI has an agreement to sublease a portion of one of its buildings to Tindley Accelerated Schools, Inc. The lease carries a two-year term ending June 2016, with the option for a one-year extension. Base rent for the year-ended June 30, 2015 was \$330,001. Base rent for the year ending June 30, 2016 is \$340,000.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(7) 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, 2015 and 2014, LAI was not in compliance with either of these covenants calculated as follows:

	<u>2015</u>	<u>2014</u>
Cash as of June 30, 2014	\$ <u>484,871</u>	<u>1,270,014</u>
Operating expenses:		
Program services	\$ 9,502,054	11,465,844
Management and general	<u>2,162,821</u>	<u>2,410,225</u>
Total	<u>\$11,664,875</u>	<u>13,876,069</u>
Cash divided by operating expenses	4.16%	9.15%
Days in the year	<u>365</u>	<u>365</u>
Days cash on hand	<u>15</u>	<u>33</u>
Net available corporate income:		
Excess (deficiency) of revenue over expenses	\$ (937,013)	(421,153)
Interest expense	-	28,566
Base rent	1,405,375	1,027,149
Depreciation	452,331	468,923
Amortization of loan costs	<u>-</u>	<u>7,719</u>
Total	<u>\$ 920,593</u>	<u>1,111,204</u>
Base rent for the year	<u>\$1,405,375</u>	<u>1,027,149</u>
Ratio of net available corporate income to base rent	<u>.66</u>	<u>1.08</u>

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(7) Leases, Continued

LAI has four leases for copiers requiring monthly payments through January 2017. LAI also leased textbooks, furniture and equipment under operating leases that required monthly rent payments through July 2015. These leases were fully paid in 2014 as part of the closure of the Monument Lighthouse Charter School. Total lease expense for the years ended June 30, 2015 and 2014 was \$48,107 and \$84,588, respectively.

(8) 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, 2015 and 2014, 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.

(9) Subsequent Event

Effective July 1, 2015, LAI was awarded a charter by the Mayor's office of the City of Indianapolis to operate a second Indianapolis-based charter school. The second charter school, operating under the name Indianapolis Lighthouse Charter School East, will be located in an existing LAI facility serving students in grades seven through nine. The current charter school, operating under the name Indianapolis Lighthouse Charter School South, will continue to serve students in grades kindergarten through twelve.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(10) 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. Following is a summary of expenses comprising each program and service for the years ended June 30, 2015 and 2014:

	<u>2015</u>		
	<u>Program</u>	<u>Management</u>	<u>Fund-</u>
	<u>Services</u>	<u>Services</u>	<u>raising</u>
Salaries and wages.....	\$ 4,061,416	650,326	-
Employee benefits	984,009	157,562	-
Staff development and recruitment	61,026	32,993	-
Academic services - Lighthouse Academies....	-	747,589	-
Food service	706,128	-	-
Transportation service	852,960	-	-
Other professional services	153,786	99,004	-
Property and textbook rental	48,107	-	-
Classroom, kitchen and office supplies	102,446	65,890	-
Occupancy	914,741	146,470	-
Depreciation	389,813	62,418	-
Interest	1,177,891	188,572	-
Other	<u>49,731</u>	<u>11,997</u>	<u>15,061</u>
	<u>\$9,502,054</u>	<u>2,162,821</u>	<u>15,061</u>

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to Financial Statements

(10) Functional Expense Reporting, Continued

	<u>2014</u>		
	<u>Program</u>	<u>Management</u>	<u>Fund-</u>
	<u>Services</u>	<u>Services</u>	<u>raising</u>
Salaries and wages.....	\$ 4,902,555	623,390	-
Employee benefits	1,262,014	160,498	-
Staff development and recruitment	63,836	73,528	-
Academic services - Lighthouse Academies....	-	967,873	-
Food service	790,931	-	-
Transportation service	903,710	-	-
Other professional services	267,793	195,130	-
Property and textbook rental	84,588	-	-
Classroom, kitchen and office supplies	896,729	45,788	-
Occupancy	785,549	100,239	-
Depreciation	422,670	46,253	-
Interest	943,467	119,967	-
Other	<u>142,002</u>	<u>77,559</u>	<u>29,093</u>
	<u>\$11,465,844</u>	<u>2,410,225</u>	<u>29,093</u>

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

<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		\$ 174,150
National School Lunch Program	10.555		444,141
Total for cluster			<u>618,291</u>
Fresh Fruit and Vegetable Program	10.582		-
Total for federal grantor agency			<u>618,291</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		1,035,393
Special Education Cluster			
Special Education - Grants to States	84.027	14214-520-PN01	17,817
Charter Schools Program	84.282	A58-15OT-2814	158,095
Total for federal grantor agency			<u>1,211,305</u>
Total federal awards expended			<u><u>\$1,829,596</u></u>

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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Lighthouse Academies of Indiana, Inc. under programs of the federal government for the year ended June 30, 2015. 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 Lighthouse Academies of Indiana, Inc.

(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.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Schedule of Financial Position by School

<u>Assets</u>	June 30, 2014		
	<u>Indianapolis</u>	<u>Monument</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 870,282	399,732	1,270,014
Accounts receivable:			
Grants	312,227	138,317	450,544
Other	-	9,453	9,453
Prepaid expenses	28,000	23,000	51,000
Total current assets	<u>1,210,509</u>	<u>570,502</u>	<u>1,781,011</u>
Property and equipment, net	<u>6,035,137</u>	<u>5,637,591</u>	<u>11,672,728</u>
	<u>\$ 7,245,646</u>	<u>6,208,093</u>	<u>13,453,739</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 417,101	557,487	974,588
Refundable advances	30,321	3,289	33,610
Current portion of capital lease obligations	21,763	17,149	38,912
Total current liabilities	<u>469,185</u>	<u>577,925</u>	<u>1,047,110</u>
Capital lease obligations	<u>6,153,237</u>	<u>5,307,851</u>	<u>11,461,088</u>
Total liabilities	<u>6,622,422</u>	<u>5,885,776</u>	<u>12,508,198</u>
Unrestricted net assets	<u>623,224</u>	<u>322,317</u>	<u>945,541</u>
	<u>\$ 7,245,646</u>	<u>6,208,093</u>	<u>13,453,739</u>

See accompanying Independent Auditor's Report.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Schedule of Activities by School

	Year Ended June 30, 2014		
	<u>Indianapolis</u>	<u>Monument</u>	<u>Total</u>
<u>Revenue and Support</u>			
State education support	\$ 5,629,366	4,764,944	10,394,310
Grant revenue	1,580,907	1,380,965	2,961,872
Student fees	20,232	20,622	40,854
Fundraising income	8,138	9,021	17,159
Other	19,524	50,290	69,814
Total revenue and support	<u>7,258,167</u>	<u>6,225,842</u>	<u>13,484,009</u>
<u>Expenses</u>			
Program services	5,989,900	5,475,944	11,465,844
Management and general	1,237,390	1,172,835	2,410,225
Fundraising	24,263	4,830	29,093
Total expenses	<u>7,251,553</u>	<u>6,653,609</u>	<u>13,905,162</u>
Change in net assets	6,614	(427,767)	(421,153)
Net assets, beginning of year	<u>616,610</u>	<u>750,084</u>	<u>1,366,694</u>
Net assets, end of year	<u>\$ 623,224</u>	<u>322,317</u>	<u>945,541</u>

See accompanying Independent Auditor's Report.

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 **Lighthouse Academies of Indiana, Inc.**, which comprise the statement of financial position as of June 30, 2015, 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 October 30, 2015.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2015-001, that we consider to be a material weakness.

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*.

Lighthouse Academies of Indiana, Inc.'s Response to Findings

Lighthouse Academies of Indiana, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Lighthouse Academies of Indiana, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Indianapolis, IN
October 30, 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 **Lighthouse Academies of Indiana, Inc.**'s 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 Lighthouse Academies of Indiana's major federal programs for the year ended June 30, 2015. Lighthouse Academies of Indiana, Inc.'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 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 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 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, 2015.

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 Finding No. 2015-002. Our opinion on the major federal program is not modified with respect to these matters.

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

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 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 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, we identified one deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding No. 2015-002, that we consider to be a significant deficiency.

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

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



Indianapolis, IN
October 30, 2015

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	Yes
▪ 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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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
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Auditee qualified as low-risk auditee:	No
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II. Financial Statement Findings

MATERIAL WEAKNESS

FINDING NO. 2015-001 FINANCIAL ACCOUNTING

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.

Criteria

OMB Circular A-133, Subpart C, §____.300 states in part:

“The auditee shall...

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs...

- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §____.310....”

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

II. Financial Statement Findings, Continued

Cause

The changeover in accounting personnel during the fiscal year and the closure of one of the organization's charter schools created uncertainty regarding the accounting for certain significant events.

Effect

The failure to properly account for certain significant events resulted in an overstatement of revenues over expenses for fiscal year 2015.

Context

The accounting errors overstated revenues over expenses by approximately \$566,000.

Recommendation

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.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

III. Federal Award Findings and Questioned Costs

FINDING NO. 2015-002 EMPLOYEE TIME RECORDS

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Award Year:	FY 2014-15

Questioned
Costs

Condition

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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

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 maintain records to support time and effort or they were unable to locate them.

Effect

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

Context

The semi-annual certifications and time-and-effort logs were not available to properly substantiate the personnel charges to the Title I program.

\$ -0-

Recommendation

We recommend that the School implement a process to assure that semi-annual certifications and time-and-effort logs are maintained.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

Other Reports

Year Ended June 30, 2015

The reports presented herein were prepared in addition to another official report prepared for the School 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*.

Lighthouse Academies, Inc.

ATTACHMENT

December 10, 2015

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

RE: Responses to Indianapolis Lighthouse Charter School Findings
Dear Sir:

Finding No. 2015-001 Financial Accounting

Audit Comment: Various misstatements were identified that resulted in an overstatement of operating results for the 2015 school year.

Cause: The changeover in accounting personnel during the fiscal year and the closure of one of the organization's charter schools created uncertainty regarding the accounting for certain significant events.

School response: Monthly reconciliations of general ledger accounts are now being completed. General journal entries and financials are reviewed and approved by the LHA Managing Director of Finance.

Finding No. 2015-002 Employee Time Records

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

Cause: The school did not maintain records to support time-and-effort or they were unable to locate them.

School response: Time-and-effort logs will be kept for partially-funded Title I staff and verified by the Regional Operations Manager. Semi-annual certifications for the entirely-funded Title I staff will be verified by the Regional Operations Manager. The list of Title I staff will be compared to the time-and-effort logs and semi-annual certifications at least twice a year by the Controller.

Sincerely,



Tina Dobson
Indiana Controller
Lighthouse Academies, Inc.

Challenge + Arts Infusion = Transformative Opportunities

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