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July 29, 2016

Charter School Board
Lighthouse Academies of Northwest Indiana, Inc.
29140 Chapel Park Drive
Wesley Chapel, FL 33543

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, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements included in the report present fairly the financial condition of the Lighthouse Academies of Northwest 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.

In addition to the report presented herein, a Supplemental Audit Report for Lighthouse Academies of Northwest 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 NORTHWEST INDIANA, INC.

Financial Statements and Federal Single Audit Report

June 30, 2015 and 2014



LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-15
Supplementary Information:	
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Schedule of Financial Position by School	18-19
Schedule of Activities by School	20-21
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 <i>Government Auditing Standards</i>	22-23
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	24-26
Schedule of Findings and Questioned Costs	27-34
Summary Schedule of Prior Audit Findings	35
Other Reports	36
Views of Responsible Officials and Planned Corrective Action	Attachment



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of **Lighthouse Academies of Northwest 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 Northwest 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.

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, 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 June 3, 2016 on our consideration of Lighthouse Academies of Northwest 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 Northwest Indiana, Inc.'s internal control over financial reporting and compliance.



Indianapolis, IN
June 3, 2016

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2015	2014
Current assets:		
Cash and cash equivalents	\$ 1,212,027	2,196,365
Accounts receivable:		
Grants	351,521	937,752
Other	23,517	94,760
Prepaid expenses	112,856	85,975
Total current assets	1,699,921	3,314,852
Property and equipment, net	14,093,102	14,397,968
	\$ 15,793,023	17,712,820
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,240,406	1,714,976
Refundable advances	-	101,039
Current portion of long-term debt	83,333	250,000
Current portion of capital lease obligations	49,147	45,252
Total current liabilities	1,372,886	2,111,267
Long-term debt	83,334	-
Capital lease obligations	13,205,600	13,254,748
Total liabilities	14,661,820	15,366,015
Unrestricted net assets	1,131,203	2,346,805
	\$ 15,793,023	17,712,820

See accompanying notes to financial statements.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Statements of Activities

	Year Ended June 30	
	2015	2014
<u>Revenue and Support</u>		
State education support	\$ 13,874,227	14,641,593
Grant revenue	3,964,032	4,078,649
Student fees	26,304	54,877
Fundraising income	62,702	86,029
Other	56,396	1,795
Total revenue and support	<u>17,983,661</u>	<u>18,862,943</u>
<u>Expenses</u>		
Program services	13,867,836	13,351,773
Management and general	5,310,390	5,188,604
Fundraising	21,037	18,136
Total expenses	<u>19,199,263</u>	<u>18,558,513</u>
Change in net assets	(1,215,602)	304,430
Net assets, beginning of year	<u>2,346,805</u>	<u>2,042,375</u>
Net assets, end of year	<u>\$ 1,131,203</u>	<u>2,346,805</u>

See accompanying notes to financial statements.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
Operating Activities		
Change in net assets	\$ (1,215,602)	304,430
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Contributions of capital assets	-	(508,195)
Depreciation	617,007	498,974
Change in:		
Accounts receivable	657,474	(568,552)
Prepaid expenses	(26,881)	131,511
Accounts payable and accrued expenses	(474,570)	374,531
Refundable advances	(101,039)	33,836
Net cash provided (used) by operating activities	(543,611)	266,535
Investing Activities		
Purchase of property and equipment	(312,141)	(370,888)
Net cash used by investing activities	(312,141)	(370,888)
Financing Activities		
Principal payments on capital lease obligations	(45,253)	-
Principal payments on long-term debt	(83,333)	-
Net cash used by financing activities	(128,586)	-
Net decrease in cash	(984,338)	(104,353)
Cash and cash equivalents, beginning of year	2,196,365	2,300,718
Cash and cash equivalents, end of year	\$ 1,212,027	2,196,365
Supplemental disclosures:		
Cash paid for interest expense	\$ 1,640,485	1,232,814
Non-cash investing and financing activities:		
Land and buildings acquired under capital lease	\$ -	13,300,000

See accompanying notes to financial statements.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

General

Lighthouse Academies of Northwest Indiana, Inc. ("LANWI"), a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, is the organizer and governing body of two charter schools located in Indiana. Each of the schools are public charter schools established under Indiana Code 20-24 and sponsored by Ball State University. LANWI has entered into a service agreement with Lighthouse Academies, Inc., a not-for-profit organization incorporated in the State of Delaware, to provide educational, managerial, legal, and financial services to the 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 LANWI's revenue is the product of cost reimbursement grants. Accordingly, LANWI 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 NORTHWEST 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. LANWI 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.....	7 to 30 years
Furniture and equipment	5 years

Taxes on Income

Lighthouse Academies of Northwest Indiana, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the organization would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 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 Northwest Indiana, Inc. to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. Lighthouse Academies of Northwest Indiana, Inc. has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

LANWI evaluated subsequent events through June 3, 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.

(2) Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land.....	\$ 1,245,200	1,245,200
Buildings and improvements.....	13,359,639	13,107,292
Furniture and equipment	<u>1,061,811</u>	<u>1,002,015</u>
	15,666,650	15,354,507
Less: accumulated depreciation.....	<u>(1,573,548)</u>	<u>(956,539)</u>
	<u>\$ 14,093,102</u>	<u>14,397,968</u>

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

(3) Long-Term Debt

Long-term debt at June 30, 2015 and 2014 was comprised of a note payable to Lighthouse Academies, Inc., which is under contract to manage the LANWI schools. The note provides for monthly interest payments at 4.5% per annum. Principal payments are due and payable at such times as LANWI has unencumbered funds to make a payment when considering other debts then currently owing. The remaining unpaid balance was due in November 2014, but an agreement was reached to extend the due date. The note is to be paid evenly in three payments of \$83,333 in 2015, 2016, and 2017. Long-term debt obligations as of June 30, 2015 and 2014 were \$166,667 and \$250,000, respectively. The note is secured by certain items of personal property.

(4) Leases

On August 28, 2013, the land and buildings comprising LANWI facilities were acquired by CFM – NW Indiana, LLC, an entity controlled by CFM, Inc. CFM, Inc. was created by LANWI'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. One facility owned by LANWI was sold to CFM – NW Indiana, LLC for \$1.

Coincident with the purchase of the facilities by CFM – NW Indiana, LLC, LANWI entered into a 30-year lease agreement with CFM – NW Indiana, LLC on the same facilities, which is accounted for as a capital lease. Under the lease agreement, CFM – NW Indiana, LLC agreed to make improvements to the facilities at an approximate cost of \$6,300,000. The lease requires LANWI to make rental payments equal to CFM – NW Indiana, LLC's debt service obligation on bonds that it issued to purchase the facilities. In addition, LANWI is responsible for utilities, maintenance, and insurance. LANWI 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 \$13,802,342 and \$767,381, respectively. At June 30, 2014, the cost and accumulated depreciation relating to these assets were \$13,802,342 and \$348,810, respectively.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

(4) Leases, Continued

As a condition of the lease, LANWI 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, LANWI was not in compliance with either of these covenants calculated as follows:

	<u>School</u>		
	<u>Gary</u>	<u>East Chicago</u>	<u>Combined</u>
Cash as of June 30, 2015	\$ <u>1,017,021</u>	<u>195,006</u>	<u>1,212,027</u>
Operating expenses:			
Program	\$10,581,761	3,286,075	13,867,836
Management and general	<u>4,232,445</u>	<u>1,077,945</u>	<u>5,310,390</u>
Total	<u>\$14,814,206</u>	<u>4,364,020</u>	<u>19,178,226</u>
Cash divided by operating expenses	6.87%	4.47%	6.32%
Days in the year	<u>365</u>	<u>365</u>	<u>365</u>
Days cash on hand	<u>25</u>	<u>16</u>	<u>23</u>
Net available corporate income:			
Excess of revenue over expenses	\$ (925,552)	(290,050)	(1,215,602)
Interest expense	-	9,375	9,375
Base rent	1,341,090	335,273	1,676,363
Depreciation	<u>483,296</u>	<u>133,711</u>	<u>617,007</u>
Total	<u>\$ 898,834</u>	<u>188,309</u>	<u>1,087,143</u>
Base rent for the year ended			
June 30, 2015	\$ <u>1,341,090</u>	<u>335,273</u>	<u>1,676,363</u>
Ratio of net available corporate income to base rent	<u>.67</u>	<u>.56</u>	<u>.65</u>

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

(4) Leases, Continued

Following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments as of June 30, 2015:

	<u>School</u>		
	<u>Gary</u>	<u>East Chicago</u>	<u>Combined</u>
<u>Year Ended June 30:</u>			
2016	\$ 1,339,590	334,898	1,674,488
2017	1,339,240	334,810	1,674,050
2018	1,342,490	335,622	1,678,112
2019	1,340,740	335,185	1,675,925
2020	1,342,240	335,560	1,677,800
Thereafter.....	<u>32,169,790</u>	<u>8,042,447</u>	<u>40,212,237</u>
	38,874,090	9,718,522	48,592,612
Less: amount representing interest	<u>(28,211,083)</u>	<u>(7,126,782)</u>	<u>(35,337,865)</u>
	<u>\$10,663,007</u>	<u>2,591,740</u>	<u>13,254,747</u>

LANWI also leases certain items of equipment under operating leases. Total lease expense under operating leases for the years ended June 30, 2015 and 2014 was \$30,132 and \$117,408, respectively. Future minimum lease payments under operating leases as of June 30, 2015 are:

	<u>School</u>		
	<u>Gary</u>	<u>East Chicago</u>	<u>Combined</u>
<u>Year Ended June 30:</u>			
2016	\$26,352	3,780	30,132
2017	13,176	-	13,176

(5) Refundable Advances

LANWI 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, LANWI had refundable grant advances in excess of expenditures of \$101,039.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

(6) Retirement Plan

LANWI personnel are employees of Lighthouse Academies, Inc., which provides management services to LANWI. LANWI personnel are eligible to participate in the Lighthouse Academies, Inc. Section 401(k) retirement plan. Under the plan, LANWI matches 100% of employee contributions not to exceed 4% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the LANWI board of directors. No discretionary contributions were made in 2015 or 2014. Retirement plan expense for the years ended June 30, 2015 and 2014 was \$114,854 and \$110,047, respectively.

(7) Commitments

LANWI's two schools operate under charters granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charters, LANWI has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received associated with its two schools. Expense under the charter agreements was \$291,780 and \$285,317 for the years ended June 30, 2015 and 2014, respectively.

LANWI has contracted with Lighthouse Academies, Inc. to provide management, administrative, and educational programming services for each of its schools. Under the terms of the agreements, LANWI has agreed to pay an amount equal to 7.5% of revenue, as defined, for such services. Expense under the agreements was \$1,262,103 and \$1,272,285 for the years ended June 30, 2015 and 2014, respectively. These agreements remain in effect so long as the school charters remain in effect.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

(8) Risks and Uncertainties

LANWI provides education services to families residing in Lake 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 LANWI. Additionally, LANWI 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 LANWI to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2015 and 2014, substantially all of the receivable balance was due from the State of Indiana. Cash deposits are maintained at J.P. Morgan Chase Bank and BMO Harris Bank and are insured up to the FDIC insurance limit.

(9) Contingencies

The audit for the year ended June 30, 2015 disclosed questioned costs under the federal Title I grant in the amount of \$346,003. The questioned costs relate to the allowability of costs for the purpose of the grant. Final determination of the allowability of the costs will be made by the Indiana Department of Education. No liability for the potential outcome of this matter has been recorded in the accompanying financial statements as of June 30, 2015.

LIGHTHOUSE ACADEMIES OF NORTHWEST 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 among the programs and services benefited. 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>and General</u>	<u>raising</u>
Salaries and wages	\$ 7,567,629	1,221,307	-
Employee benefits	1,477,807	234,016	-
Staff development and recruitment	148,064	-	-
Academic services - Lighthouse Academies....	-	1,302,300	-
Authorizer's oversight fee.....	-	291,780	-
Food service	982,800	-	-
Transportation service	1,145,909	-	-
Other professional services	302,093	150,623	-
Equipment rental	19,488	-	-
Classroom, kitchen and office supplies.....	556,123	54,350	-
Occupancy.....	1,079,476	175,223	-
Depreciation	531,171	85,836	-
Interest.....	-	1,640,485	-
Other	<u>57,276</u>	<u>154,470</u>	<u>21,037</u>
	<u>\$13,867,836</u>	<u>5,310,390</u>	<u>21,037</u>

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Notes to Financial Statements

(10) Functional Expense Reporting, Continued

		<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	\$ 7,067,960	1,427,311	-	-
Employee benefits	1,560,790	315,808	-	-
Staff development and recruitment	78,390	14,509	-	-
Academic services - Lighthouse Academies....	-	1,309,443	-	-
Authorizer's oversight fee	-	285,317	-	-
Food service	1,040,126	-	-	-
Transportation service	897,192	-	-	-
Other professional services	77,729	165,921	-	-
Equipment rental	204,977	-	-	-
Classroom, kitchen and office supplies.....	1,106,454	49,309	-	-
Occupancy	818,221	166,447	-	-
Depreciation	416,217	82,757	-	-
Interest.....	-	1,232,814	-	-
Other	<u>83,717</u>	<u>138,968</u>	<u>18,136</u>	<u>18,136</u>
	<u>\$13,351,773</u>	<u>5,188,604</u>	<u>18,136</u>	<u>18,136</u>

LIGHTHOUSE ACADEMIES OF NORTHWEST 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		\$ 233,068
National School Lunch Program	10.555		741,865
Total for cluster			<u>974,933</u>
Fresh Fruit and Vegetable Program	10.582		26,654
Total for federal grantor agency			<u>1,001,587</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	14-9535/15-9535 14-9595/15-9535	2,196,301
Special Education Cluster			
Special Education - Grants to States	84.027	14214-501-PN01 14214-572-PN01	101,998
English Language Acquisition Grants	84.365		2,489
Total for federal grantor agency			<u>2,300,788</u>
Total federal awards expended			<u><u>\$3,302,375</u></u>

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

LIGHTHOUSE ACADEMIES OF NORTHWEST 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 Northwest Indiana, Inc. ("LANWI") 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 the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of LANWI, it is not intended to and does not present the financial position, changes in net assets or cash flows of LANWI.

(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 NORTHWEST INDIANA, INC.

Schedule of Financial Position by School

Assets	June 30, 2015		
	Gary	East Chicago	Total
Current assets:			
Cash and cash equivalents	\$ 1,017,021	195,006	1,212,027
Accounts receivable:			
Grants	296,928	54,593	351,521
Other	15,647	7,870	23,517
Prepaid expenses	65,975	46,881	112,856
Total current assets	1,395,571	304,350	1,699,921
Property and equipment, net	11,260,118	2,832,984	14,093,102
	\$ 12,655,689	3,137,334	15,793,023
 <u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 902,872	337,534	1,240,406
Current portion of long-term debt	-	83,333	83,333
Current portion of capital lease obligations	40,183	8,964	49,147
Total current liabilities	943,055	429,831	1,372,886
Long-term debt	-	83,334	83,334
Capital lease obligations	10,622,824	2,582,776	13,205,600
Total liabilities	11,565,879	3,095,941	14,661,820
Unrestricted net assets	1,089,810	41,393	1,131,203
	\$ 12,655,689	3,137,334	15,793,023

See accompanying Independent Auditor's Report.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Financial Position by School

Assets	June 30, 2014		
	Gary	East Chicago	Total
Current assets:			
Cash and cash equivalents	\$ 1,715,557	480,808	2,196,365
Accounts receivable:			
Grants	779,348	158,404	937,752
Other	66,123	28,637	94,760
Prepaid expenses	65,975	20,000	85,975
Total current assets	2,627,003	687,849	3,314,852
Property and equipment, net	11,459,094	2,938,874	14,397,968
	\$ 14,086,097	3,626,723	17,712,820
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,317,028	397,948	1,714,976
Refundable advances	53,707	47,332	101,039
Current portion of long-term debt	-	250,000	250,000
Current portion of capital lease obligations	36,993	8,259	45,252
Total current liabilities	1,407,728	703,539	2,111,267
Capital lease obligations	10,663,007	2,591,741	13,254,748
Total liabilities	12,070,735	3,295,280	15,366,015
Unrestricted net assets	2,015,362	331,443	2,346,805
	\$ 14,086,097	3,626,723	17,712,820

See accompanying Independent Auditor's Report.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Activities by School

	Year Ended June 30, 2015		
	Gary	East Chicago	Total
<u>Revenue and Support</u>			
State education support	\$ 10,750,521	3,123,706	13,874,227
Grant revenue	3,060,127	903,905	3,964,032
Student fees	9,548	16,756	26,304
Fundraising income	28,964	33,738	62,702
Other	39,732	16,664	56,396
Total revenue and support	<u>13,888,892</u>	<u>4,094,769</u>	<u>17,983,661</u>
<u>Expenses</u>			
Program services	10,581,761	3,286,075	13,867,836
Management and general	4,232,445	1,077,945	5,310,390
Fundraising	238	20,799	21,037
Total expenses	<u>14,814,444</u>	<u>4,384,819</u>	<u>19,199,263</u>
Change in net assets	(925,552)	(290,050)	(1,215,602)
Net assets, beginning of year	<u>2,015,362</u>	<u>331,443</u>	<u>2,346,805</u>
Net assets, end of year	<u>\$ 1,089,810</u>	<u>41,393</u>	<u>1,131,203</u>

See accompanying Independent Auditor's Report.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Activities by School

Revenue and Support	Year Ended June 30, 2014			
	Gary	East Chicago	West Gary	Total
State education support	\$11,501,485	3,140,108	-	14,641,593
Grant revenue	2,994,867	1,083,782	-	4,078,649
Student fees	35,098	19,779	-	54,877
Fundraising income	54,465	31,564	-	86,029
Other	1,580	215	-	1,795
Total revenue and support	<u>14,587,495</u>	<u>4,275,448</u>	<u>-</u>	<u>18,862,943</u>
<u>Expenses</u>				
Program services	10,479,346	2,872,427	-	13,351,773
Management and general	3,944,499	1,244,105	-	5,188,604
Fundraising	-	18,136	-	18,136
Total expenses	<u>14,423,845</u>	<u>4,134,668</u>	<u>-</u>	<u>18,558,513</u>
Change in net assets	163,650	140,780	-	304,430
Net assets, beginning of year	1,639,010	190,663	212,702	2,042,375
Transfer of assets	<u>212,702</u>	<u>-</u>	<u>(212,702)</u>	<u>-</u>
Net assets, end of year	<u>\$ 2,015,362</u>	<u>331,443</u>	<u>-</u>	<u>2,346,805</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 Northwest Indiana, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Lighthouse Academies of Northwest Indiana, Inc.** ("LANWI"), 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 June 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LANWI'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 LANWI's internal control. Accordingly, we do not express an opinion on the effectiveness of LANWI's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 2015-001 and 2015-002 to be material weaknesses.

-22-

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LANWI'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2015-002.

Management's Response to the Findings

LANWI's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. LANWI'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 LANWI'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
June 3, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited **Lighthouse Academies of Northwest Indiana, Inc.**'s ("LANWI") 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 LANWI's major federal programs for the year ended June 30, 2015. LANWI'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 LANWI'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 LANWI'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 LANWI's compliance.

Basis for Qualified Opinion on Title I, Grants to Local Educational Agencies

As described in the accompanying schedule of findings and questioned costs as Findings No. 2015-003, 2015-004, and 2015-005, LANWI did not comply with requirements regarding fiscal management and reporting for CFDA 84.010, Title I Grants to Local Educational Agencies. Compliance with such requirements is necessary, in our opinion, for LANWI to meet its obligations under the grant.

Qualified Opinion on Title I, Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, Lighthouse Academies of Northwest 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 the Title I, Grants to Local Educational Agencies program for the year ended June 30, 2015.

Other Matters

LANWI’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. LANWI’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.

Report on Internal Control Over Compliance

Management of Lighthouse Academies of Northwest 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 LANWI’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 LANWI’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings No. 2015-003, 2015-004, and 2015-005, that we consider to be material weaknesses.

Lighthouse Academies of Northwest Indiana, Inc.'s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. LANWI'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 that reads "DONOVAN". The letters are in all caps and have a cursive, slightly slanted appearance.

Indianapolis, IN
June 3, 2016

LIGHTHOUSE ACADEMIES OF NORTHWEST 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:	Yes

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	Yes
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Type of auditor's report issued on compliance for major program:	Qualified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	Yes

LIGHTHOUSE ACADEMIES OF NORTHWEST 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

Auditee qualified as low-risk auditee: No

II. Financial Statement Findings

FINDING NO. 2015-001 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 such items as accumulated depreciation, prepaid expenses, accrued expenses, accounts payable, grant revenues, and expenses.

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 NORTHWEST 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 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.

**FINDING NO. 2015-002 GRANT MANAGEMENT
MATERIAL WEAKNESS**

As discussed in Findings No. 2015-003, 2015-004, and 2015-005, LANWI submitted claims for reimbursement under the Title I Grants to Local Educational Agencies program for costs that were (1) not approved by the awarding agency, (2) exceeded the approved budget, and (3) were not supported by the accounting records. Because of the lack of proper grant management, expenses were incurred under the grant award that were not allowable resulting in questioned costs of \$346,003. Procedures should be implemented to assure that costs charged to federal grant programs are accurately identified at the time that they are incurred, are consistent with the approved grant budget, and accurately supported by the accounting records.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs

Questioned
Costs

FINDING NO. 2015-003 FINANCIAL MANAGEMENT
MATERIAL WEAKNESS

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
School: Gary Lighthouse Charter School

Condition

Our audit disclosed that grant funds were expended in excess of budgeted amounts approved by the awarding agency for multiple budget categories.

Criteria

OMB Circular A-110, §__.25(b) states, in part:

“(b) Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section.”

Cause

Lighthouse Academies of Northwest Indiana, Inc. was of the belief that grant funds could be moved between budget categories any number of times in amounts not to exceed 10%. Per guidelines established by the awarding agency, charter schools are allowed to shift funds of up to 10% from one budget category to another one time without submitting a request for approval.

Effect

The failure to limit expenses to amounts contained in the approved budget makes the recipient out of compliance with the grant agreement.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

	<u>Questioned Costs</u>
<u>Context</u> Costs reported in excess of budgeted grant amounts are not allowable.	\$ <u>66,446</u>
<u>Recommendation</u> We recommend that Lighthouse Academies of Northwest Indiana, Inc. implement a process to ensure grant funds are expended consistent with the approved budget and, if necessary, proper approval is requested for deviations from said budget.	
<u>Views of Responsible Officials and Planned Corrective Action</u> See attached letter of response from Lighthouse Academies of Northwest Indiana, Inc. officials.	

**FINDING NO. 2015-004 GRANT MANAGEMENT
MATERIAL WEAKNESS**

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
School:	Gary Lighthouse Charter School

Condition

Our audit disclosed that claims for reimbursement were made for salary and benefit expenses relating to employees that were not contained in the approved grant budget. These positions included a principal, two assistant principals, and a social worker.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

Criteria

OMB Circular A-122, Attachment A, Subsection 2.b. states, in part:

“2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria: . . .

(b) Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.”

Cause

Lighthouse Academies of Northwest Indiana, Inc. did not adhere to the approved grant budget with regard to application of approved job positions.

Effect

The failure to apply expenses in line with the approved budget makes LANWI out of compliance with the grant agreement.

Context

Costs reported outside the provisions of the grant agreement are not allowable.

\$ 239,930

Recommendation

We recommend that Lighthouse Academies of Northwest Indiana, Inc. implement a process to ensure grant funds are expended consistent with the approved grant budget.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from Lighthouse Academies of Northwest Indiana, Inc. officials.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

FINDING NO. 2015-005 GRANT MANAGEMENT
MATERIAL WEAKNESS

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
School: Gary Lighthouse Charter School

Condition

We noted three instances where amounts claimed for reimbursement exceeded the actual amounts paid to employees during the grant period. Certain other instances of amounts claimed for reimbursement that were not reflective of actual payroll expenditures were also noted, but the amounts were immaterial.

Criteria

OMB Circular A-110, §__.21(b) states, in part:

“(b) Recipients’ financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section ____.52 . . .
- (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest . . .

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

(6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.”

Cause

Lighthouse Academies of Northwest Indiana, Inc. did not apply expenses to the grant for reimbursement consistent with actual expenditures.

Effect

The failure to properly account for and report grant expenditures resulted in reimbursement for costs that were not allowable or that could not be supported.

Context

Costs reported that cannot be substantiated are not allowable.

\$ 39,627

Recommendation

We recommend that Lighthouse Academies of Northwest Indiana, Inc. implement a process to determine the nature and classification of costs at the time that the expenditures occur, and confirm that the costs meet the established budget criteria of the grant. Such accounting records should provide the basis for all reimbursement claims.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from Lighthouse Academies of Northwest Indiana, Inc. officials.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2015

FINDING 2014-001 (FINANCIAL STATEMENT FINDING)

FINDING 2014-002 (FEDERAL AWARD FINDING)

EMPLOYEE TIME RECORDS

SIGNIFICANT DEFICIENCY

Condition

During the 2014 audit, it was noted that Gary Lighthouse Charter School maintained attendance records for personnel, but was unable to provide semi-annual certifications or time-and-effort logs to support employee wages charged to federal grant programs.

Recommendation

The auditor recommended that LANWI implement a policy for document retention necessary to substantiate amounts claimed for grant reimbursement.

Current Status

No further action is required. LANWI was in compliance for the 2015 fiscal year.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

Other Reports

Year Ended June 30, 2015

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

Supplemental Audit Report of Lighthouse Academies of Northwest 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.

June 22, 2016
Donovan PC
9245 N. Meridian St., Suite 302
Indianapolis, IN 46260
ATTN: Mr. Eugene P Fitzgerald

RE: Responses to Lighthouse Academies of Northwest Indiana Audit 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 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 Grant Management

Audit Comment: Claims for reimbursement under the Title I grants for costs that 1) not approved by awarding agency 2) exceeded approved budget and 3) not supported by the accounting records.

Cause: The changeover in accounting personnel during the fiscal year created uncertainty regarding the accounting for certain significant events.

School response: Grant expenses are now coded according to SBOA chart of accounts. Grant spreadsheets are maintained as a double-check to what is in the accounting records. Claims are made based on paid expenses only.

Finding No. 2015-003 Financial Management

Audit Comment: Audit disclosed that grant funds were expended in excess of budgeted amounts approved by the awarding agency for multiple budget categories.

Cause: Belief that grant funds could be moved between budget categories any number of times in amounts not to exceed 10%. Guidelines allow for only one budget category to exceed 10%.

School response: Grant spreadsheets compare each category to the budget amount and to insure that only one category will exceed 10% of budget amount. Amendments are submitted periodically to make budget adjustments when necessary.

Finding No. 2015-004 Grant Management

Audit Comment: Audit disclosed that claims for reimbursements were made for salary and benefit expenses relating to employees that were not contained in the approved grant budget.

Cause: LHA of NWI did not adhere to the approved budget with regard to application of approved job positions.

Challenge + Arts Infusion = Transformative Opportunities

Lighthouse Academies, Inc.

School response: Title I grant budgets now contain not only the position title and description but also the name of each employee to be expensed through the grant. Grant spreadsheets contain the names of each employee to ensure that only the names of the employees on the grant budget will be submitted for reimbursement. Amendments are submitted periodically to make budget adjustments when necessary.

Finding No. 2015-005 Grant Management

Audit Comment: Amounts claimed for reimbursement exceeded the actual amounts paid to employees during the grant period.

Cause: LHA of NWI did not apply expenses to the grant for reimbursement consistent with actual expenditures.

School response: Payroll trend reports are compared to the grant spreadsheets prior to each reimbursement claim is submitted.

Sincerely,

Tina Dobson
Indiana Controller
Lighthouse Academies, Inc.