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March 14, 2018

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


We have reviewed the report prepared by Lighthouse Academies of Indiana, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Lighthouse Academies of Indiana, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on page 24. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for Lighthouse Academies of Indiana, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets.....	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 11
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards.....	12
Notes to the Schedule of Expenditures of Federal Awards	13
Schedule of Financial Position by School	14 - 15
Schedule of Activities and Change in Net Assets by School.....	16 - 17
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	
	18 - 19
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE <i>UNIFORM GUIDANCE</i>.....	
	20 - 22
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	23 - 24
OTHER REPORT	25



Donovan CPAs

Independent Auditors' Report

The Board of Directors
Lighthouse Academies of Indiana, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Lighthouse Academies of Indiana, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Likewise, the schedules of financial position by school and schedules of activities and change in net assets by school on pages 14 - 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018 on our consideration of Lighthouse Academies of Indiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Academies of Indiana, Inc.'s internal control over financial reporting and compliance.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large initial "D".

Indianapolis, Indiana
March 5, 2018

LIGHTHOUSE ACADEMIES OF INDIANA, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,333,990	\$ 716,654
Cash - restricted for bond interest	103,426	-
Accounts receivable:		
Grants	613,836	612,078
Other	18,924	-
Prepaid expenses	114,461	166,431
<i>Total current assets</i>	<u>2,184,637</u>	<u>1,495,163</u>
PROPERTY AND EQUIPMENT, NET	<u>14,843,167</u>	<u>11,172,715</u>
OTHER ASSETS		
Cash - restricted for debt service	1,337,537	-
Cash - restricted for property repairs and replacement	200,073	-
<i>Total other assets</i>	<u>1,537,610</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 18,565,414</u>	<u>\$ 12,667,878</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,352,741	\$ 774,333
Security deposit	27,000	27,000
Refundable advances	-	50,000
Current portion of capital lease obligations	-	52,291
<i>Total current liabilities</i>	<u>1,379,741</u>	<u>903,624</u>
LONG-TERM LIABILITIES		
Bonds payable	16,770,000	-
Less: unamortized debt issuance costs	(246,120)	-
Capital lease obligations, net of current portion	-	11,363,808
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>16,523,880</u>	<u>11,363,808</u>
<i>Total liabilities</i>	17,903,621	12,267,432
NET ASSETS	<u>661,793</u>	<u>400,446</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,565,414</u>	<u>\$ 12,667,878</u>

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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 9,087,414	\$ 8,393,329
Grant revenue	3,212,729	3,002,662
Contributions	37,965	33,934
Rent	337,347	341,196
Student fees	28,686	31,050
Fundraising	22,340	9,761
Other	44,184	102,322
	<u>12,770,665</u>	<u>11,914,254</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	10,421,600	9,732,016
Management and general	2,076,040	1,774,802
Fundraising	11,678	15,518
	<u>12,509,318</u>	<u>11,522,336</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	261,347	391,918
NET ASSETS, BEGINNING OF YEAR	<u>400,446</u>	<u>8,528</u>
NET ASSETS, END OF YEAR	<u>\$ 661,793</u>	<u>\$ 400,446</u>

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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>				<u>2016</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
FUNCTIONAL EXPENSES								
Salaries and wages	\$ 4,396,420	\$ 693,755	\$ -	\$ 5,090,175	\$ 3,991,904	\$ 678,237	\$ -	\$ 4,670,141
Employee benefits	1,058,874	201,053	-	1,259,927	876,008	96,084	-	972,092
Staff development and recruitment	29,317	42,207	-	71,524	25,851	38,321	-	64,172
Academic services - Lighthouse Academies	-	877,158	-	877,158	-	804,559	-	804,559
Authorizer fees	-	45,970	-	45,970	-	-	-	-
Food service	588,519	-	-	588,519	575,424	-	-	575,424
Transportation service	1,035,885	-	-	1,035,885	1,013,154	-	-	1,013,154
Other professional services	208,239	85,928	-	294,167	154,541	84,951	-	239,492
Property and textbook rental	31,475	-	-	31,475	50,629	-	-	50,629
Classroom, kitchen, and office supplies	190,598	58,762	-	249,360	182,457	44,388	-	226,845
Occupancy	1,100,200	-	-	1,100,200	978,821	-	-	978,821
Depreciation	508,115	-	-	508,115	441,127	-	-	441,127
Amortization	4,475	-	-	4,475	-	-	-	-
Interest	1,168,919	-	-	1,168,919	1,361,510	-	-	1,361,510
Other	100,564	71,207	11,678	183,449	80,590	28,262	15,518	124,370
<i>Total functional expenses</i>	<u>\$ 10,421,600</u>	<u>\$ 2,076,040</u>	<u>\$ 11,678</u>	<u>\$ 12,509,318</u>	<u>\$ 9,732,016</u>	<u>\$ 1,774,802</u>	<u>\$ 15,518</u>	<u>\$ 11,522,336</u>

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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 261,347	\$ 391,918
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	508,115	441,127
Amortization	4,475	-
Changes in certain assets and liabilities:		
Grants receivable	(1,758)	(373,219)
Other receivables	(18,924)	-
Prepaid expenses	51,970	(44,840)
Accounts payable and accrued expenses	477,329	140,300
Refundable advances	(50,000)	50,000
	<u>1,232,554</u>	<u>605,286</u>
<i>Net cash provided by operating activities</i>		
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(270,821)</u>	<u>(328,514)</u>
FINANCING ACTIVITIES		
Principal repayment of capital lease obligations	(21,794)	(44,989)
Increase in cash restricted for bond interest	(103,426)	-
Increase in cash restricted for debt service	(98,838)	-
Cash paid at bond closing	(117,339)	-
Cash paid for bond issuance costs	<u>(3,000)</u>	<u>-</u>
	<u>(344,397)</u>	<u>(44,989)</u>
<i>Net cash used in financing activities</i>		
NET CHANGE IN CASH	617,336	231,783
CASH, BEGINNING OF YEAR	<u>716,654</u>	<u>484,871</u>
CASH, END OF YEAR	<u>\$ 1,333,990</u>	<u>\$ 716,654</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 1,070,281	\$ 1,361,510
Purchases of property and equipment financed through accrued expenses	101,079	-
Financed through bonds payable:		
Capital lease obligations retirement	11,394,305	-
Purpose restricted cash acquired	1,438,772	-
Increase in value of property and equipment	3,806,667	-
Debt issuance costs	247,595	-

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

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Lighthouse Academies of Indiana, Inc. ("LAI") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, and the organizer and governing body of two charter schools located in Indianapolis, Indiana. Each of the schools is a public charter school established under Indiana Code 20-24 and sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis ("Mayor's Office"). LAI has entered into a service agreement with Lighthouse Academies, Inc., a not-for-profit organization incorporated in the State of Delaware to provide educational, managerial, legal, and financial services to the charter schools it operates.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the schools receive an amount per student in relation to the funding received by other public schools in the same geographic areas. Funding from the State of Indiana is based on enrollment and is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A portion of LAI's revenue is the product of cost reimbursement grants. Accordingly, LAI recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

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

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

Debt Issuance Costs – During 2017, the School incurred costs associated with securing financing under Indiana Finance Authority Education Facilities Revenue Bonds. Total costs incurred were \$250,595. Amortization is provided on a straight-line basis over the term of the bonds (27 years). Accumulated amortization as of June 30, 2017 was \$4,475. Amortization expense for the year ended June 30, 2017 was \$4,475. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$5,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Buildings and improvements	30 years
Furniture and equipment	5 years

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Lighthouse Academies of Indiana, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the organization would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require LAI 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. LAI has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2013 are open to audit for both federal and state purposes.

Subsequent Events – LAI evaluated subsequent events through March 5, 2018, 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.

NOTE 2 - RESTRICTED CASH

Cash - restricted for bond interest is reserved for the payment of interest on the bond semi-annually. Funds are placed in the account monthly to cover one-sixth of the semi-annual interest payment.

Cash - restricted for debt service is reserved for the payment of principal and interest on the bond in the event that other funding is unavailable to meet payment requirements. Bond proceeds funded \$1,238,699 of the balance in this fund. LAI is required to deposit \$16,473 monthly into this fund beginning January 2017 and ending November 2017.

Cash - restricted for property repairs and replacement was established with the bond proceeds and represents resources available for repairing and replacing facilities.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Land	\$ 367,700	\$ 367,700
Buildings and improvements	14,345,091	11,673,724
Furniture and equipment	1,128,854	936,313
	<u>15,841,645</u>	<u>12,977,737</u>
Less: accumulated depreciation	<u>(998,478)</u>	<u>(1,805,022)</u>
	<u>\$ 14,843,167</u>	<u>\$ 11,172,715</u>

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 4 - BONDS PAYABLE

During 2017, LAI refinanced its obligations related to its school facilities. Previously, as described in Note 5, LAI had entered into a lease arrangement with CFM – Indianapolis, LLC. During 2017, LAI purchased its facilities with Indiana Finance Authority Educational Facilities Revenue Bonds, Series 2016 with original amounts totaling \$16,770,000. Principal is payable in annual installments that increase from \$235,000 to \$1,320,000, beginning in December 2018 and maturing in December 2044. Interest payments are made semi-annually at rates ranging from 6.25% to 7.25% in accordance with the bond agreements. The bonds are secured by land, buildings, and improvements.

The Indiana Finance Authority Educational Facilities Revenue Bond agreements contains certain covenants requiring:

- submission of audited financial statements within 150 days after the end of the fiscal year;
- a minimum 35 days' cash on hand as of June 30, 2017 and 2018 and 45 days' cash on hand thereafter;
- and meeting a minimum debt service coverage ratio of 1.15 to 1.00, measured annually.

The School was not in compliance with the covenant of submission of audited financial statements within 150 days after the end of the fiscal year for 2017. Management has discussed this issue with the bondholder and has obtained verbal agreement that the bond will not be called as a result.

Principal maturities of bonds payable are as follows for the years ending June 30:

2018	\$	-
2019		235,000
2020		250,000
2021		265,000
2022		280,000
Thereafter		<u>15,740,000</u>
	\$	<u>16,770,000</u>

NOTE 5 - LEASES

LAI entered into a 30-year lease agreement with CFM – Indianapolis, LLC for its facilities, which was 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 required 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 was responsible for utilities, maintenance, and insurance. LAI had the option to purchase the facilities at any time for \$1 plus the remaining balance due on the bond debt. The facilities were purchased by LAI from CFM – Indianapolis, LLC in December 2016 using proceeds from the bonds, as described in Note 4.

LAI had an agreement to sublease a portion of one of its buildings to Tindley Accelerated Schools, Inc. The lease carried a two-year term ending June 2016, with the option for a one-year extension. The one-year extension was taken, with the lease ending June 2017. Base rent income was \$335,000 and \$340,000 for the years ended June 30, 2017 and 2016, respectively.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 5 - LEASES, Continued

LAI has entered into operating lease agreements for various office equipment. The leases extend through June 2022 and require monthly payments.

A schedule of minimum lease obligations are as follows for the years ending June 30:

2018	\$	14,871
2019		14,871
2020		14,871
2021		14,871
2022		5,063

NOTE 6 - RETIREMENT PLAN

All LAI personnel are employees of Lighthouse Academies, Inc., which provides management services to LAI. LAI personnel are eligible to participate in the Lighthouse Academies, Inc. Section 401(k) retirement plan. Under the plan, LAI matches 100% of employee contributions up to 4% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the LAI Board of Directors. No discretionary contributions were made in 2017 or 2016. Retirement plan expense for the years ended June 30, 2017 and 2016 was \$116,718 and \$98,323, respectively.

NOTE 7 - REFUNDABLE ADVANCES

In 2016, LAI was awarded grants from the Indiana Department of Education to provide educational instruction. The grants were considered to be exchange transactions. Accordingly, revenue was recognized when earned and expenses were recognized as incurred. At June 30, 2016, LAI had refundable grant advances in excess of expenditures of \$50,000. There were no refundable advances at June 30, 2017.

NOTE 8 - COMMITMENTS

LAI has contracted with Lighthouse Academies, Inc. to provide management, administrative, and educational programming services for each of its schools. Under the terms of the agreement, LAI has agreed to pay an amount equal to 7.5% of revenues, as defined, for such services, plus any necessary travel costs. Total expense under this agreement for both academic oversight and travel reimbursement was \$877,158 and \$804,559 for the years ended June 30, 2017 and 2016, respectively. This agreement remains in effect as long as the schools' charters remain in effect.

LAI operates its schools under charters granted by the Mayor's Office. As the sponsoring organization, the Mayor's Office exercises certain oversight responsibilities. These charter agreements remain in effect until June 30, 2019 and June 30, 2022 and are renewable by mutual consent. Effective July 1, 2016, the Mayor's Office began assessing a fee equal to 1% of the basic tuition support received by LAI. The fees for the year ended June 30, 2017 were \$45,970.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 9 - 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, 2017 and 2016, 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. Funds held at these financial institutions exceeded the FDIC insurance limit as of June 30, 2017.

NOTE 10 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between programs services, and management and general, and fundraising expenses.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

<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		\$ 249,959
National School Lunch Program	10.555		<u>510,747</u>
Total for federal grantor agency			<u>760,706</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	17-9770 16-9770 17-9575 16-9575	1,220,908
Special Education Cluster			
Special Education - Grants to States	84.027	14216-605-PN01 14216-516-PN01	132,457
Charter Schools Program	84.282		241,128
Improving Teacher Quality State Grants	84.367		<u>114,433</u>
Total for federal grantor agency			<u>1,708,926</u>
Total federal awards expended			\$ <u>2,469,632</u>

See independent auditors' report and accompanying notes to this schedule

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lighthouse Academies of Indiana, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lighthouse Academies of Indiana, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Lighthouse Academies of Indiana, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2017

	<u>South</u>	<u>East</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,107,731	\$ 226,259	\$ -	\$ 1,333,990
Cash - restricted for bond interest	62,056	41,370	-	103,426
Accounts receivable:				
Grants	410,194	203,642	-	613,836
Other	129,696	14,583	(125,355)	18,924
Prepaid expenses	99,436	15,025	-	114,461
<i>Total current assets</i>	<u>1,809,113</u>	<u>500,879</u>	<u>(125,355)</u>	<u>2,184,637</u>
PROPERTY AND EQUIPMENT, NET	<u>8,785,724</u>	<u>6,057,443</u>	<u>-</u>	<u>14,843,167</u>
OTHER ASSETS				
Cash - restricted for debt service	798,569	538,968	-	1,337,537
Cash - restricted for property repairs and replacement	120,044	80,029	-	200,073
<i>Total other assets</i>	<u>918,613</u>	<u>618,997</u>	<u>-</u>	<u>1,537,610</u>
TOTAL ASSETS	<u>\$ 11,513,450</u>	<u>\$ 7,177,319</u>	<u>\$ (125,355)</u>	<u>\$ 18,565,414</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 919,143	\$ 558,953	\$ (125,355)	\$ 1,352,741
Security deposit	-	27,000	-	27,000
<i>Total current liabilities</i>	<u>919,143</u>	<u>585,953</u>	<u>(125,355)</u>	<u>1,379,741</u>
LONG-TERM LIABILITIES				
Bonds payable	10,062,000	6,708,000	-	16,770,000
Less: unamortized debt issuance costs	<u>(148,851)</u>	<u>(97,269)</u>	<u>-</u>	<u>(246,120)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>9,913,149</u>	<u>6,610,731</u>	<u>-</u>	<u>16,523,880</u>
<i>Total liabilities</i>	10,832,292	7,196,684	(125,355)	17,903,621
NET ASSETS (DEFICIENCY)	<u>681,158</u>	<u>(19,365)</u>	<u>-</u>	<u>661,793</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,513,450</u>	<u>\$ 7,177,319</u>	<u>\$ (125,355)</u>	<u>\$ 18,565,414</u>

See independent auditors' report

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2016

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

See independent auditors' report

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL
For the Year Ended June 30, 2017

	<u>South</u>	<u>East</u>	<u>Total</u>
REVENUE AND SUPPORT			
State education support	\$ 6,827,320	\$ 2,260,094	\$ 9,087,414
Grant revenue	2,409,991	802,738	3,212,729
Contributions	34,286	3,679	37,965
Rent	1,930	335,417	337,347
Student fees	21,342	7,344	28,686
Fundraising	20,980	1,360	22,340
Other	<u>38,708</u>	<u>5,476</u>	<u>44,184</u>
<i>Total revenue and support</i>	<u>9,354,557</u>	<u>3,416,108</u>	<u>12,770,665</u>
EXPENSES			
Program services	7,681,752	2,739,848	10,421,600
Management and general	1,454,086	621,954	2,076,040
Fundraising	<u>11,678</u>	<u>-</u>	<u>11,678</u>
<i>Total expenses</i>	<u>9,147,516</u>	<u>3,361,802</u>	<u>12,509,318</u>
CHANGE IN NET ASSETS	207,041	54,306	261,347
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>474,117</u>	<u>(73,671)</u>	<u>400,446</u>
NET ASSETS (DEFICIENCY), END OF YEAR	<u>\$ 681,158</u>	<u>\$ (19,365)</u>	<u>\$ 661,793</u>

See independent auditors' report

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

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

See independent auditors' report



Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Lighthouse Academies of Indiana, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lighthouse Academies of Indiana, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lighthouse Academies of Indiana, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lighthouse Academies of Indiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Academies of Indiana, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

www.cpadonovan.com

Westside Office | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lighthouse Academies of Indiana, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lighthouse Academies of Indiana, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Academies of Indiana, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

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Indianapolis, Indiana
March 5, 2018



Donovan CPAs

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

The Board of Directors
Lighthouse Academies of Indiana, Inc.

Report on Compliance for Each Major Federal Program

We have audited Lighthouse Academies of Indiana, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. Lighthouse Academies of Indiana, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lighthouse Academies of Indiana, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lighthouse Academies of Indiana, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lighthouse Academies of Indiana, Inc.'s compliance.

www.cpadonovan.com

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Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2017-001. 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 as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Academies of Indiana, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding No. 2017-001, that we consider to be a significant deficiency.

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

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana
March 5, 2018

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiency identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
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
10.553	Child Nutrition Cluster
10.555	School Breakfast Program National School Lunch Program

Dollar threshold use to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

No matters are reportable.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

III. Federal Award Findings and Questioned Costs

FINDING NO. 2017-001 EMPLOYEE TIME RECORDS

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Award Year:	FY 2016-17

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.

Criteria

2 CFR part 225/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 it was 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 the School implement a process to ensure 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 on page 26.

LIGHTHOUSE ACADEMIES OF INDIANA, INC.

OTHER REPORT

For the Year Ended June 30, 2017

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

Supplemental Audit Report of Lighthouse Academies of Indiana, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.

Lighthouse Academies, Inc.

February 16, 2018

Donovan
9245 N. Meridian St., Suite 302
Indianapolis, IN 46260
ATTN: Mr. BJ Lippert

RE: Responses to Lighthouse Academies of Indiana Audit Report

Dear Sir:

Finding No. 2017-001 Employee Time Records

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

Auditor Recommendation: We recommend the School implement a process to ensure semi-annual certifications and time-and-effort logs are maintained.

LAI Response: Internal controls process will be put in place to ensure semi-annual certifications and time-and-effort logs are maintained and the controller will review twice a year.

Sincerely,



Tina Dobson
Indiana Controller
Lighthouse Academies, Inc.

Challenge + Arts Infusion = Transformative Opportunities

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