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January 8, 2013

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2010 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Indianapolis Lighthouse Charter School, as of June 30, 2010 and 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 23 through 26 contain three current audit findings. Page 27 contains the status of one prior audit finding. Management's response is on Attachment A.

In addition to the report presented herein, a Supplemental Audit Report for Indianapolis Lighthouse Charter School 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.

State Board of Accounts

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Financial Statements and Federal Single Audit Report

June 30, 2012 and 2011

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lighthouse Academies of Indiana, Inc.

We have audited the accompanying statements of financial position of **Indianapolis Lighthouse Charter School** (an operating component of Lighthouse Academies of Indiana, Inc., a not-for-profit corporation) as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Lighthouse Academies of Indiana, Inc. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indianapolis Lighthouse Charter School as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012 on our consideration of Indianapolis Lighthouse Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Indianapolis, IN
October 29, 2012

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Statements of Financial Position

	June 30	
Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 488,211	590,684
Accounts receivable:		
State education support	2,063,807	2,166,870
Grants	127,150	30,845
Other	3,934	20,886
Prepaid expenses	49,245	45,349
Total current assets	2,732,347	2,854,634
Property and equipment:		
Land	150,000	150,000
Building and improvements	3,748,428	3,652,985
Outdoor equipment	34,250	34,250
Furniture and equipment	299,063	299,063
Accumulated depreciation	(937,981)	(727,773)
Property and equipment, net	3,293,760	3,408,525
Deferred loan costs, net of amortization	18,003	28,289
	\$ 6,044,110	6,291,448
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 208,754	314,298
Refundable advances	34,885	157,328
Current portion of long-term debt	111,623	265,125
Total current liabilities	355,262	736,751
Accrued interest on Common School Fund loans	372,489	267,824
Long-term debt	5,674,230	5,826,815
Total liabilities	6,401,981	6,831,390
Unrestricted net assets (deficiency)	(357,871)	(539,942)
	\$ 6,044,110	6,291,448

See accompanying notes to financial statements.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Statements of Activities

	Year Ended June 30	
	2012	2011
<u>Revenue, Gains and Support</u>		
State education support	\$ 4,128,247	4,335,517
Grant revenue	1,726,713	1,623,844
Student fees	16,543	18,723
Fundraising income	13,168	10,675
Forgiveness of debt obligation	160,940	-
Other	3,038	32
Total revenue, gains and support	<u>6,048,649</u>	<u>5,988,791</u>
<u>Expenses</u>		
Program services:		
Educational instruction	3,678,531	4,022,393
Education support	892,247	887,158
Administrative	1,286,922	1,349,496
Fundraising	8,878	4,113
Total expenses	<u>5,866,578</u>	<u>6,263,160</u>
Increase (decrease) in net assets	182,071	(274,369)
Net assets (deficiency), beginning of year	<u>(539,942)</u>	<u>(265,573)</u>
Net assets (deficiency), end of year	<u>\$ (357,871)</u>	<u>(539,942)</u>

See accompanying notes to financial statements.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
Operating Activities		
Change in net assets	\$ 182,071	(274,369)
Adjustment to reconcile change in net assets to cash flows from operating activities:		
Depreciation	210,208	205,436
Amortization	10,286	10,284
Forgiveness of debt obligation	(160,940)	-
Change in:		
Accounts receivable	23,710	193,868
Prepaid expenses	(3,896)	3,442
Accounts payable and accrued expenses	(879)	75,948
Refundable advances	(122,443)	(90,913)
Net cash provided by operating activities	138,117	123,696
Investing Activities		
Acquisitions of property and equipment	(95,443)	(12,071)
Net cash used by investing activities	(95,443)	(12,071)
Financing Activities		
Principal payments on Lighthouse Academies, Inc. loan	(39,024)	(151,554)
Principal payments on mortgage loan	(106,123)	(101,686)
Net cash used by financing activities	(145,147)	(253,240)
Net decrease in cash	(102,473)	(141,615)
Cash and cash equivalents, beginning of year	590,684	732,299
Cash and cash equivalents, end of year	\$ 488,211	590,684
Supplemental disclosures:		
Cash paid for interest expense	\$ 191,132	198,861

See accompanying notes to financial statements.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

General

Indianapolis Lighthouse Charter School (the "School") is a public charter school established under Indiana Code 20-24-3-1 and sponsored by the Mayor's Office of the City of Indianapolis. The sponsor has granted a charter to the School's organizer, Lighthouse Academies of Indiana, Inc. ("LAI"), a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. LAI is the organizer and governing body of five charter schools located in Indiana. LAI has entered into a service agreement with Lighthouse Academies, Inc., a not-for-profit organization incorporated in the State of Delaware, to provide educational, managerial, legal, and financial services to the School.

Accounting Estimates

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

Accounts Receivable

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

Subsequent Events

The School evaluated subsequent events through October 29, 2012, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the school year in which educational services are rendered.

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

Property and Equipment

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

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

Building and improvements	10 to 25 years
Outdoor equipment.....	10 years
Furniture and equipment	5 years

Taxes on Income

Lighthouse Academies of Indiana, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the organization would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2012 and 2011, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income, Continued

Professional standards require Lighthouse Academies of Indiana, Inc. to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. Lighthouse Academies of Indiana, Inc. has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2011, 2010, and 2009 are open to audit for both federal and state purposes.

Deferred Loan Costs

Costs associated with debt issuance are amortized over the life of the related debt obligation. Amortization of deferred loan costs is included in interest expense and amounted to \$10,286 and \$10,284 for the years ended June 30, 2012 and 2011, respectively.

(2) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 and 2011 represent amounts due from the State of Indiana relating to the following sources:

	<u>2012</u>	<u>2011</u>
Tuition support	\$1,934,097	2,045,131
Special education grant	<u>129,710</u>	<u>121,739</u>
	<u>\$2,063,807</u>	<u>2,166,870</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law, with tuition support payable in equal monthly installments in the calendar year following the start of school. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 3).

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(3) Long-Term Debt

Long-term debt at June 30, 2012 and 2011 was comprised of:

	<u>2012</u>	<u>2011</u>
Mortgage loan payable to the Indianapolis Local Public Improvement Bond Bank	\$3,169,230	3,275,353
Notes payable to Indiana Common School Fund	2,616,623	2,616,623
Note payable to Lighthouse Academies, Inc.	-	199,964
	<u>5,785,853</u>	<u>6,091,940</u>
Less current maturities	<u>(111,623)</u>	<u>(265,125)</u>
	<u>\$5,674,230</u>	<u>5,826,815</u>

The mortgage loan is payable in monthly installments of principal and interest, with the unpaid balance due on March 30, 2014. Interest is variable as determined by a formula based on the LIBOR rate. The rate at June 30, 2012 and 2011 approximated 4.5%. The loan also requires a monthly payment of \$2,871 over the term of the loan into a "payment reserve fund". The note is secured by a first priority interest on the land, building and personal property and guaranteed by Local Initiatives Support Corporation and Annie E. Casey Foundation.

The notes payable to the Indiana Common School Fund are comprised of five separate notes, each of which requires semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments are scheduled to commence again on July 1, 2013. The last note matures July 1, 2033. The notes are secured by unpaid tuition support distributions (see Note 2).

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(3) Long-Term Debt, Continued

In 2009, the School executed a loan agreement with Lighthouse Academies, Inc. in the amount of \$460,000. The note was payable in monthly installments of \$13,765, including interest at 4.75% per annum, through September 2012. The note was subordinated to other debt obligations and secured by unpaid tuition support distributions, building and personal property. In 2012, the unpaid balance of the loan in the amount of \$160,940 was forgiven by Lighthouse Academies, Inc.

Future maturities of long-term debt are as follows:

Year Ending June 30:

2013	\$ 111,623
2014	3,198,494
2015	140,887
2016	140,887
2017	140,887
Thereafter	<u>2,053,075</u>
	<u>\$5,785,853</u>

(4) Leases

The School leased textbooks, furniture and equipment from Lighthouse Academies, Inc. The lease was accounted for as an operating lease and required quarterly payments. Total lease expense for the years ended June 30, 2012 and 2011 was \$14,355 and \$110,901, respectively. The lease terminated in 2012.

(5) Retirement Plan

Effective August 1, 2010, all School personnel became employees of Lighthouse Academies, Inc., which provides management services to the School. At that time, School personnel became eligible to participate in the Lighthouse Academies, Inc. Section 401(k) retirement plan. Under the plan, the School will match 100% of employee contributions not to exceed 4% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the LAI board of directors. No discretionary contributions were made in 2012 and 2011. Retirement plan expense for the years ended June 30, 2012 and 2011 was \$31,551 and \$16,715, respectively.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(6) Commitments

Lighthouse Academies of Indiana, Inc. ("LAI") has contracted with Lighthouse Academies, Inc. to provide management, administrative, and educational programming services for each of its schools. Under the terms of the agreement, LAI has agreed to pay an amount equal to 7.5% of revenues, as defined, for such services. Payments under this agreement were \$394,665 and \$437,157 for the years ended June 30, 2012 and 2011, respectively. This agreement remains in effect for the period of the School's charter, and is subject to automatic renewal at such time as the School's charter is renewed. The School's charter expires on June 30, 2015.

(7) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2012 and 2011, the School had refundable grant advances in excess of expenditures of \$34,885 and \$157,328, respectively.

(8) Accounting Correction

In 2012, the School discovered that it had not been recording a liability for employee compensated absences. The School has corrected this error in accounting by restating previously issued financial statements. Net assets as of July 1, 2010 have been reduced by \$45,350 to reflect this correction. In addition, the excess of expenses over revenue for the year ended June 30, 2011 has been increased by \$14,608 to reflect the effect of the correction.

(9) Risks and Uncertainties

Since inception, the School incurred excesses of expenses over revenue, which produced a net asset deficiency of \$539,942 as of June 30, 2011. In 2012, revenue exceeded expenses by \$182,071. Management continues to monitor this situation and believes that they will be able to eliminate this deficiency through measures to increase enrollment and stabilize costs. Until such time, adequate sources of lending have been obtained to enable the School to continue to operate.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(9) Risks and Uncertainties, Continued

The School provides education services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2012, substantially all of the accounts receivable balance was due from the State of Indiana.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

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, 2012 and 2011:

	<u>2012</u>			
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>	<u>Fund-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>	<u>raising</u>
Salaries and wages.....	\$2,122,366	1,983	267,427	-
Employee benefits	484,826	453	61,090	-
Staff development and recruitment.....	32,884	-	27,800	-
Academic services –				
Lighthouse Academies	-	-	407,000	-
Food service	-	339,757	-	-
Transportation service	-	521,830	-	-
Other professional services	44,213	-	97,641	-
Property and textbook rental.....	14,355	-	-	-
Classroom, kitchen and office supplies.....	302,492	18,695	12,176	-
Occupancy	378,133	353	47,646	-
Depreciation	195,658	183	14,368	-
Interest	-	-	306,083	-
Other	<u>103,604</u>	<u>8,993</u>	<u>45,691</u>	<u>8,878</u>
	<u>\$3,678,531</u>	<u>892,247</u>	<u>1,286,922</u>	<u>8,878</u>

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to Financial Statements

(10) Functional Expense Reporting, Continued

	<u>2011</u>			
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>	<u>Fund-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>	<u>raising</u>
Salaries and wages.....	\$2,207,940	13,208	268,338	-
Employee benefits	515,057	3,128	60,101	-
Staff development and recruitment.....	35,589	-	40,811	-
Academic services – Lighthouse Academies	-	-	462,829	-
Food service	-	359,701	-	-
Transportation service	-	486,881	-	-
Other professional services	209,380	-	91,345	-
Property and textbook rental.....	110,901	-	-	-
Classroom, kitchen and office supplies.....	395,415	21,206	24,183	-
Occupancy	314,845	1,883	36,181	-
Depreciation	192,453	1,151	11,832	-
Interest.....	-	-	313,810	-
Other	<u>40,813</u>	<u>-</u>	<u>40,066</u>	<u>4,113</u>
	<u>\$4,022,393</u>	<u>887,158</u>	<u>1,349,496</u>	<u>4,113</u>

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended	
			2012	2011
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 96,015	80,941
National School Lunch Program	10.555		240,585	199,070
Total for cluster			<u>336,600</u>	<u>280,011</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		485,425	575,436
ARRA--Grants to Local Educational Agencies	84.389		103,572	73,558
Total for cluster			<u>588,997</u>	<u>648,994</u>
Special Education Cluster				
Special Education - Grants to States	84.027		117,553	63,938
ARRA--Special Education - Grants to States	84.391		78,075	17,461
Total for cluster			<u>195,628</u>	<u>81,399</u>
Charter Schools Program	84.282		192,374	176,680
Improving Teacher Quality State Grants	84.367		58,891	82,246
School Improvement Grants	84.377		16,356	96,653
ARRA--Education State Technology Grants	84.386		-	3,260
Education Jobs Fund	84.410		108,314	32,646
Total for federal grantor agency			<u>1,160,560</u>	<u>1,121,878</u>
Total federal awards expended			<u>\$ 1,497,160</u>	<u>1,401,889</u>

See accompanying Independent Auditors' Report.
See accompanying notes to this schedule.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Notes to the Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Indianapolis Lighthouse Charter School ("the School") under programs of the federal government for the years ended June 30, 2012 and 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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 the financial statements of Indianapolis Lighthouse Charter School ("the School") as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated October 29, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

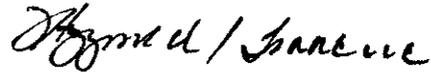
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. This item is identified as 2012-1. A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the School are free of 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*, which are described in the accompanying schedule of findings and questioned costs as items 2012-2 and 2012-3.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Indianapolis, IN
October 29, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Lighthouse Academies of Indiana, Inc.

Compliance

We have audited the compliance of Indianapolis Lighthouse Charter School ("the School") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the years ended June 30, 2012 and 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

As described in items 2012-2 and 2012-3 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding eligibility determination and verification that are applicable to the Child Nutrition Program. Compliance with such requirements is necessary, in our opinion, for the School to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

A significant deficiency in internal control over compliance is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs identified as item 2012-1 to be a significant deficiency.

The School's response to the findings identified in our audit is included with this report as an attachment. We did not audit the School's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Agym d / Annece

Indianapolis, IN
October 29, 2012

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Type of auditors' 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

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553 10.555	Child Nutrition Cluster
84.010 84.389	Grants to Local Educational Agencies Cluster
84.282	Charter Schools Program

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. 2012-1 ELIGIBILITY

As discussed at Findings 2012-2 and 2012-3, processes were not in place during the year ended June 30, 2011 to assure that income eligibility applications were obtained, eligibility status correctly determined and certified by a School official, income verified, and students correctly assigned meal benefits. The absence of a formal process governing income eligibility could result in a federal program supporting students that do not qualify for benefits and/or eligible students being denied benefits. A methodical process for determination and documentation of income eligibility should be established and monitored for compliance.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs

FINDING NO. 2012-2 ELIGIBILITY

Federal Agency:	U.S. Department of Agriculture
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Child Nutrition Cluster
CFDA Number:	10.553 and 10.555
Award Year:	FY 2010-11

Questioned
Costs

Condition

Fiscal Year 2010-11

The determination of eligibility for free and reduced meals for the year ended June 30, 2011 was subject to 100% examination by the Indiana Department of Education. A number of issues were identified, including:

1. Twenty-two (22) instances where students were assigned incorrect meal benefits.
2. Four (4) instances where student data was incomplete.

Fiscal Year 2011-12

No similar issues were noted for the year ended June 30, 2012.

Criteria

7 CFR 245.6 requires the School to determine household eligibility for free or reduced price meals either through direct certification or the application process.

Cause

At this period in time, School personnel had not complied with established procedures to obtain and process the applications for free or reduced price meals.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

Questioned
Costs

Effect

The failure to properly determine income eligibility could result in either (1) students being denied eligible benefits, or (2) the improper expenditure of federal funds.

Context

Multiple instances of incorrect eligibility determinations were noted. It was not practicable to determine the dollar value of the identified errors.

\$ -0-

Recommendation

We recommend that the School implement a methodical process for the determination and documentation of eligibility for free or reduced price meals consistent with established procedures. Internal monitoring procedures should be put in place to assure compliance.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

FINDING NO. 2012-3 ELIGIBILITY VERIFICATION

Federal Agency:	U.S. Department of Agriculture
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Child Nutrition Cluster
CFDA Number:	10.553 and 10.555
Award Year:	FY 2010-11

Condition

Fiscal Year 2010-11

Evidence could not be produced to demonstrate that a sample verification of income eligibility applications had been conducted during the year ended June 30, 2011.

Fiscal Year 2011-12

No similar issues were noted for the year ended June 30, 2012.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

Questioned
Costs

Criteria

7 CFR 245.6a requires the School to verify the income data for a sample of 3% of all applications approved by the School.

Cause

School personnel had not complied with established procedures to conduct and document the required verification of applications.

Effect

The failure to verify income applications could result in the improper expenditure of federal funds.

Context

Because verifications were not performed as indicated, no determination of questioned costs was possible.

\$ -0-

Recommendation

We recommend that the School implement procedures to assure compliance with the required verification of income data, with the emphasis on error prone applications. Internal monitoring procedures should be put in place to assure compliance.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

Total U.S. Department of Agriculture.....

\$ -0-

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Summary Schedule of Prior Audit Findings

Years Ended June 30, 2012 and 2011

FINDING NO. 2010-1 CASH MANAGEMENT

Federal Agency:	U.S. Department of Education
Pass-Through Entity:	Indiana Department of Education
Federal Program:	Title I, Part A Cluster
CFDA Number:	84.010 and 84.389
Award Year:	FY 2009-10

Condition

This finding was a significant deficiency stating that cash advances were received in excess of immediate cash needs resulting in excessive cash balances in 3 of the 12 months examined.

Recommendation

The auditor recommended the development and implementation of procedures and controls to ensure that the time between the receipt and disbursement of federal funds is kept to a minimum.

Current Status

The recommendation was adopted. The School no longer requests cash in advance of the disbursement of federal funds. No similar finding was noted in the 2012 audit.

INDIANAPOLIS LIGHTHOUSE CHARTER SCHOOL

Other Reports

Years Ended June 30, 2012 and 2011

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

Supplemental Audit Report of Indianapolis Lighthouse Charter School

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

Indianapolis Lighthouse Charter School

December 7, 2012

Attachment A

To: State Board of Accounts
302 West Washington St, Room E 418
Indianapolis, IN 46204-2765

From: Robert Stearns, Treasurer

OFFICIAL RESPONSE for Indianapolis Lighthouse Charter School

FINDING 2012-1 ELIGIBILITY

Audit comment: Processes were not in place during June 30, 2011 to assure that income eligibility applications were obtained, processed, verified so that eligibility could be correctly determined. A methodical process for determination and documentation should be established and monitored for compliance. No instances of non-compliance were noted for the school year 2011-2012.

School response: Although written procedures were in place, and a new school official responsible for managing the system was trained, a high error rate was detected upon examination by the IDOE during the 2010-2011 school year as noted in Finding 2012-2. There were no instances of non-compliance in the subsequent school year 2011-2012. Improved monitoring processes will be implemented to provide some measure that errors will be detected.

FINDING 2012-2 ELIGIBILITY

Audit comment: Upon examination by the Indiana Department of Education (IDOE) within the school year 2010-2011 for the year ended June 30, 2011, twenty-two errors were made in assigning eligibility and four instances where applications were incomplete. A recommendation that a methodical process for determining eligibility be implemented. No instances of non-compliance were noted for the school year 2011-2012.

School response: Although written procedures were in place, and a new school official responsible for managing the system was trained, a high error rate was detected upon examination by the IDOE during the 2010-2011 school year. Although there were no instances of non-compliance in the subsequent school year 2011-2012, improved monitoring processes will be implemented to provide some measure that errors will be detected. Personnel were changed during the school year 2010-2011 and the errors were corrected within the school year to the satisfaction of the IDOE.

FINDING 2012-3 ELIGIBILITY VERIFICATION

Audit Comment: Evidence could not be produced that the verification process as required by the federal program was conducted during the school year 2010-2011. No instances of non-compliance were noted for the school year 2011-2012.

School Response: The verification process has been added to the finance calendar so that all school officials will know that the school must conduct the annual verification process.

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