

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE

MARION COUNTY, INDIANA

July 1, 2008 to June 30, 2010



FILED

03/11/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dana Johnson	07-01-08 to 06-30-11
Superintendent of Schools	Kevin Teasley	07-01-08 to 06-30-11
President of the Board of Directors	Donald Laskowski Mark Bowell	07-01-08 to 12-31-08 01-01-09 to 06-30-11



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE 21ST CENTURY CHARTER SCHOOL –
FOUNTAIN SQUARE, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the 21st Century Charter School - Fountain Square (School Corporation), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management.

We were unable to determine if the cash balances for many funds accurately represented funds available to the School Corporation to be spent for purposes of the school. There were unexplained cash balances in some of the grant funds, when the grant period had ended. Due to lack of proper grant management and lack of supporting documents, it was not possible to make the determination whether grant expenditures were improperly posted to another fund or if the cash balance as reported was accurate and should be remitted back to the pass-through agency. The uncertainty surrounding the accuracy and ownership of the grant fund cash balances also directly affects the accuracy of the general fund transactions and balances due to the nature of the accounting system.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Since the School Corporation did not maintain proper grant documents or adequate support information regarding unexplained cash balances for some closed grants, and we were not able to apply other audit procedures to satisfy ourselves as to the accuracy of receipts, disbursements, and cash and investment balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial information presented herein.

In accordance with Government Auditing Standards, we have also issued a report dated February 11, 2011, on our consideration of the School Corporation's internal control over financial reporting and 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 audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. Since the school did not maintain proper grant documents or adequate support information regarding unexplained cash balances for some closed grants, and we were not able to apply other audit procedures to satisfy ourselves as to the accuracy of receipts, disbursements, and cash and investment balances, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the financial information presented herein.

The School Corporation has not presented Management's Discussion and Analysis, Schedules of Funding Progress, or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The School Corporation's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

February 11, 2011



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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

TO: THE OFFICIALS OF THE 21ST CENTURY CHARTER SCHOOL –
FOUNTAIN SQUARE, MARION COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the 21st Century Charter School - Fountain Square (School Corporation), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 11, 2011. The opinions to the financial statements were disclaimed due to lack of maintaining proper grant documents or adequate support information regarding disbursements and unexplained cash balances for some closed grants, which also directly affects the accuracy of the general fund due to the school corporation's accounting system. 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 Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2010-1 and 2010-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2010-1 and 2010-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statements 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 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, Board of Directors, 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 11, 2011

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:				
Instruction	\$ 698,202	\$ -	\$ 12,243	\$ (685,959)
Support services	1,196,170	1,359	86,216	(1,108,595)
Noninstructional services	88,712	-	-	(88,712)
Facilities acquisition and construction	304,610	-	-	(304,610)
Debt service	782,150	-	-	(782,150)
	<u>\$ 3,069,844</u>	<u>\$ 1,359</u>	<u>\$ 98,459</u>	<u>(2,970,026)</u>
General receipts:				
Property taxes				548,746
Other local sources				15,400
State aid				1,251,183
Bonds and loans				544,678
Grants and contributions not restricted to specific programs				<u>619,901</u>
Total general receipts				<u>2,979,908</u>
Change in net assets				9,882
Net assets - beginning				<u>20,376</u>
Net assets - ending				<u>\$ 30,258</u>
<u>Assets</u>				
Cash and investments				<u>\$ 30,258</u>
Total assets				<u>\$ 30,258</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 30,258</u>
Total net assets				<u>\$ 30,258</u>

The notes to the financial statements are an integral part of this statement.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 961,941	\$ -	\$ 12,575	\$ (949,366)
Support services	1,334,173	2,910	97,153	(1,234,110)
Noninstructional services	110,808	-	-	(110,808)
Facilities acquisition and construction	373,108	-	-	(373,108)
Debt service	<u>257,376</u>	<u>-</u>	<u>-</u>	<u>(257,376)</u>
Total governmental activities	<u>\$ 3,037,406</u>	<u>\$ 2,910</u>	<u>\$ 109,728</u>	<u>(2,924,768)</u>
General receipts:				
Other local sources				93,003
State aid				1,731,297
Bonds and loans				632,586
Grants and contributions not restricted to specific programs				<u>500,037</u>
Total general receipts				<u>2,956,923</u>
Change in net assets				32,155
Net assets - beginning				<u>30,258</u>
Net assets - ending				<u><u>\$ 62,413</u></u>
<u>Assets</u>				
Cash and investments				<u>\$ 62,413</u>
Total assets				<u><u>\$ 62,413</u></u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 62,413</u>
Total net assets				<u><u>\$ 62,413</u></u>

The notes to the financial statements are an integral part of this statement.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	General	School Improvement Grant	McKinney Vento Grant	Title II - Part A Improving Teacher Quality	Title II, Part D Education Technology	Other	Totals
Receipts:							
Local sources	\$ 564,145	\$ -	\$ -	\$ -	\$ -	\$ 1,359	\$ 565,504
State sources	1,263,426	56,000	-	-	-	24,360	1,343,786
Federal sources	-	-	93,630	-	27,888	504,240	625,758
Temporary loans	544,678	-	-	-	-	-	544,678
Total receipts	2,372,249	56,000	93,630	-	27,888	529,959	3,079,726
Disbursements:							
Current:							
Instruction	528,705	-	-	-	-	169,497	698,202
Support services	962,227	39,528	15,160	-	-	179,255	1,196,170
Noninstructional services	25,427	-	-	-	-	63,285	88,712
Facilities acquisition and construction	304,610	-	-	-	-	-	304,610
Debt services	782,150	-	-	-	-	-	782,150
Total disbursements	2,603,119	39,528	15,160	-	-	412,037	3,069,844
Excess (deficiency) of receipts over disbursements	(230,870)	16,472	78,470	-	27,888	117,922	9,882
Other financing sources (uses):							
Transfers in	-	-	-	-	-	27,339	27,339
Transfers out	-	-	-	-	-	(27,339)	(27,339)
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(230,870)	16,472	78,470	-	27,888	117,922	9,882
Cash and investments - beginning	(74,011)	-	21,329	23,492	1,575	47,991	20,376
Cash and investments - ending	<u>\$ (304,881)</u>	<u>\$ 16,472</u>	<u>\$ 99,799</u>	<u>\$ 23,492</u>	<u>\$ 29,463</u>	<u>\$ 165,913</u>	<u>\$ 30,258</u>
Cash and Investment Assets - Ending							
Cash and investments	<u>\$ (304,881)</u>	<u>\$ 16,472</u>	<u>\$ 99,799</u>	<u>\$ 23,492</u>	<u>\$ 29,463</u>	<u>\$ 165,913</u>	<u>\$ 30,258</u>
Total cash and investment assets - ending	<u>\$ (304,881)</u>	<u>\$ 16,472</u>	<u>\$ 99,799</u>	<u>\$ 23,492</u>	<u>\$ 29,463</u>	<u>\$ 165,913</u>	<u>\$ 30,258</u>
Cash and Investment Fund Balance - Ending							
Unrestricted	<u>\$ (304,881)</u>	<u>\$ 16,472</u>	<u>\$ 99,799</u>	<u>\$ 23,492</u>	<u>\$ 29,463</u>	<u>\$ 165,913</u>	<u>\$ 30,258</u>
Total cash and investment fund balance - ending	<u>\$ (304,881)</u>	<u>\$ 16,472</u>	<u>\$ 99,799</u>	<u>\$ 23,492</u>	<u>\$ 29,463</u>	<u>\$ 165,913</u>	<u>\$ 30,258</u>

The notes to the financial statements are an integral part of this statement.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	General	School Improvement Grant	McKinney Vento Grant	Title II - Part A Improving Teacher Quality	Title II, Part D Education Technology	Other	Totals
Receipts:							
Local sources	\$ 48,003	\$ -	\$ -	\$ -	\$ -	\$ 47,910	\$ 95,913
State sources	1,743,872	51,000	-	-	-	125	1,794,997
Federal sources	-	-	-	23,459	135	522,471	546,065
Temporary loans	369,884	-	-	-	-	-	369,884
Total receipts	2,161,759	51,000	-	23,459	135	570,506	2,806,859
Disbursements:							
Current:							
Instruction	475,465	-	5,000	-	-	481,476	961,941
Support services	1,140,540	41,529	27,794	12,860	-	111,450	1,334,173
Noninstructional services	5,100	-	-	-	-	105,708	110,808
Facilities acquisition and construction	307,332	-	-	-	-	65,776	373,108
Debt services	257,376	-	-	-	-	-	257,376
Total disbursements	2,185,813	41,529	32,794	12,860	-	764,410	3,037,406
Excess (deficiency) of receipts over disbursements	(24,054)	9,471	(32,794)	10,599	135	(193,904)	(230,547)
Other financing sources (uses):							
Proceeds of long-term debt	262,702	-	-	-	-	-	262,702
Total other financing sources (uses)	262,702	-	-	-	-	-	262,702
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	238,648	9,471	(32,794)	10,599	135	(193,904)	32,155
Cash and investments - beginning	(304,881)	16,472	99,799	23,492	29,463	165,913	30,258
Cash and investments - ending	<u>\$ (66,233)</u>	<u>\$ 25,943</u>	<u>\$ 67,005</u>	<u>\$ 34,091</u>	<u>\$ 29,598</u>	<u>\$ (27,991)</u>	<u>\$ 62,413</u>
Cash and Investment Assets - Ending							
Cash and investments	\$ (66,233)	\$ 25,943	\$ 67,005	\$ 34,091	\$ 29,598	\$ (27,991)	\$ 62,413
Total cash and investment assets - ending	\$ (66,233)	\$ 25,943	\$ 67,005	\$ 34,091	\$ 29,598	\$ (27,991)	\$ 62,413
Cash and Investment Fund Balance - Ending							
Unrestricted	\$ (66,233)	\$ 25,943	\$ 67,005	\$ 34,091	\$ 29,598	\$ (27,991)	\$ 62,413
Total cash and investment fund balance - ending	\$ (66,233)	\$ 25,943	\$ 67,005	\$ 34,091	\$ 29,598	\$ (27,991)	\$ 62,413

The notes to the financial statements are an integral part of this statement.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2010

	Private-Purpose Trust Funds
Additions:	
Contributions:	
Other	\$ 5,000
Total contributions	5,000
Deductions:	
Administrative and general	5,403
Total deductions	5,403
Excess (deficiency) of total additions over total deductions	(403)
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	\$ (403)
Net assets:	
Cash and investments	\$ (403)
Total net assets - cash and investment basis held in trust	\$ (403)

The notes to the financial statements are an integral part of this statement.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of Directors form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: 21st Century Charter School - Fountain Square

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The school improvement grant fund accounts for activity of this federal grant.

The mckinney vento grant fund accounts for activity of this federal grant.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The title II - part a, improving teacher quality fund accounts for activity of this federal grant.

The title II, part d education technology fund accounts for activity of this federal grant.

Additionally, the School Corporation reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the professional development of staff and specific student educational needs.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

3. Property Taxes

Normally, property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS
(Continued)

by February 15. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which may become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.
4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

Interfund activity, if any, is eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

G. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are prepared and approved at the local level and adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

B. Cash and Investment Balance Deficits

At June 30, 2009 and 2010, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as authorized by State statute:

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	2009	2010
General	\$ 304,881	\$ 66,233
School Lunch	-	3,245
Textbook Rental	-	31,124
Purdue Grant	-	5,403

III. Detailed Notes on All Funds

Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2010, the School Corporation had deposit balances in the amount of \$83,985. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. Risk financing is not utilized for the other risks of loss.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2008 and 2009, were as follows:

Transfer From	Transfer To	2009
Other Governmental Funds	Other Governmental Funds	\$ <u>27,339</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Short and Long-term Debts

The Charter School has experienced an increasing need to expand the amount of short-term and long-term obligations to meet the cash needs to operate and expand. Over the audit period the total debt has increased \$573,919. The following schedule describes the increase in current and long-term debt:

<u>Fiscal Year 2008-2009</u>	<u>Balance July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30</u>
Short-Term Debt/Liability:				
Notes Payable - ONB	\$ 226,178	\$ 226,178	\$ 452,356	\$ -
Line of Credit - ONB	-	150,000	30,000	120,000
Due to GEO Foundation	<u>63,227</u>	<u>216,130</u>	<u>163,500</u>	<u>115,857</u>
Total Short-Term Debt/Liability	<u>289,405</u>	<u>592,308</u>	<u>645,856</u>	<u>235,857</u>
Long-Term Debt/Liability:				
Common School Fund Loans	<u>1,023,164</u>	<u>-</u>	<u>54,236</u>	<u>968,928</u>
Total Long-Term Debt/Liability	<u>1,023,164</u>	<u>-</u>	<u>54,236</u>	<u>968,928</u>
Total Debt/Liabilities	<u>\$ 1,312,569</u>	<u>\$ 592,308</u>	<u>\$ 700,092</u>	<u>\$ 1,204,785</u>
 <u>Fiscal Year 2009-2010</u>				
Short-Term Debt/Liability:				
Line of Credit - ONB	\$ 120,000	\$ 105,384	\$ 100,000	\$ 125,384
Due to GEO Foundation	<u>115,857</u>	<u>485,973</u>	<u>280,140</u>	<u>321,690</u>
Total Short-Term Debt/Liability	<u>235,857</u>	<u>591,357</u>	<u>380,140</u>	<u>447,074</u>
Long-Term Debt/Liability:				
Common School Fund Loans	968,928	262,702	-	1,231,630
Note Payable - ONB	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total Long-Term Debt/Liability	<u>968,928</u>	<u>362,702</u>	<u>-</u>	<u>1,331,630</u>
Total Debt/Liabilities	<u>\$ 1,204,785</u>	<u>\$ 954,059</u>	<u>\$ 380,140</u>	<u>\$ 1,778,704</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the School Corporation for during the school years ending June 30, 2009 and June 30, 2010, were \$12,302 and \$12,569, respectively.

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL STATEMENTS
(Continued)

employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation's contributions to the plan during the school years ending June 30, 2009 and June 30, 2010, were \$50,969 and \$68,572, respectively.

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21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2009

	School Lunch	Textbook Rental	Title I 2007-08	Title I 2008-09	Title I Grant	Special Education IDEA Grant
Receipts:						
Local sources	\$ 1,359	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	69	24,291	-	-	-	-
Federal sources	61,857	-	-	213,553	-	43,708
	<u>63,285</u>	<u>24,291</u>	<u>-</u>	<u>213,553</u>	<u>-</u>	<u>43,708</u>
Total receipts						
Disbursements:						
Current:						
Instruction	-	60,263	-	61,637	-	22,245
Support services	-	-	-	179,255	-	-
Noninstructional services	63,285	-	-	-	-	-
	<u>63,285</u>	<u>60,263</u>	<u>-</u>	<u>240,892</u>	<u>-</u>	<u>22,245</u>
Total disbursements						
Excess (deficiency) of receipts over disbursements	-	(35,972)	-	(27,339)	-	21,463
Other financing sources (uses):						
Transfers in	-	-	-	27,339	-	-
Transfers out	-	-	(27,339)	-	-	-
	<u>-</u>	<u>-</u>	<u>(27,339)</u>	<u>27,339</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)						
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(35,972)	(27,339)	-	-	21,463
Cash and investments - beginning	-	35,972	27,339	-	6,143	(21,463)
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,143</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 6,143	\$ -
Total cash and investment assets - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,143</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ 6,143	\$ -
Total cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,143</u>	<u>\$ -</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2009
 (Continued)

	Title IV - Safe & Drug Free Schools	Title II - JJDP/ ICJI TAS	Fiscal Stabilization	Title I ARRA	Totals
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 1,359
State sources	-	-	-	-	24,360
Federal sources	1,774	25,352	131,237	26,759	504,240
	<u>1,774</u>	<u>25,352</u>	<u>131,237</u>	<u>26,759</u>	<u>529,959</u>
Disbursements:					
Current:					
Instruction	-	25,352	-	-	169,497
Support services	-	-	-	-	179,255
Noninstructional services	-	-	-	-	63,285
	<u>-</u>	<u>25,352</u>	<u>-</u>	<u>-</u>	<u>412,037</u>
Excess (deficiency) of receipts over disbursements	<u>1,774</u>	<u>-</u>	<u>131,237</u>	<u>26,759</u>	<u>117,922</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	27,339
Transfers out	-	-	-	-	(27,339)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,774	-	131,237	26,759	117,922
Cash and investments - beginning	-	-	-	-	47,991
Cash and investments - ending	<u>\$ 1,774</u>	<u>\$ -</u>	<u>\$ 131,237</u>	<u>\$ 26,759</u>	<u>\$ 165,913</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 1,774</u>	<u>\$ -</u>	<u>\$ 131,237</u>	<u>\$ 26,759</u>	<u>\$ 165,913</u>
Total cash and investment assets - ending	<u>\$ 1,774</u>	<u>\$ -</u>	<u>\$ 131,237</u>	<u>\$ 26,759</u>	<u>\$ 165,913</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 1,774</u>	<u>\$ -</u>	<u>\$ 131,237</u>	<u>\$ 26,759</u>	<u>\$ 165,913</u>
Total cash and investment fund balance - ending	<u>\$ 1,774</u>	<u>\$ -</u>	<u>\$ 131,237</u>	<u>\$ 26,759</u>	<u>\$ 165,913</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010

	School Lunch	Textbook Rental	Title I 2009-10	Title I Grant	Title V, Part A Community Relations	Special Education IDEA Grant
Receipts:						
Local sources	\$ 2,910	\$ -	\$ -	\$ -	\$ -	\$ 45,000
State sources	125	-	-	-	-	-
Federal sources	97,028	-	173,735	-	167	-
Total receipts	100,063	-	173,735	-	167	45,000
Disbursements:						
Current:						
Instruction	-	31,124	134,075	-	167	27,338
Support services	-	-	24,186	-	-	-
Noninstructional services	103,308	-	2,400	-	-	-
Facilities acquisition and construction	-	-	11,909	-	-	-
Total disbursements	103,308	31,124	172,570	-	167	27,338
Excess (deficiency) of receipts over disbursements	(3,245)	(31,124)	1,165	-	-	17,662
Cash and investments - beginning	-	-	-	6,143	-	-
Cash and investments - ending	<u>\$ (3,245)</u>	<u>\$ (31,124)</u>	<u>\$ 1,165</u>	<u>\$ 6,143</u>	<u>\$ -</u>	<u>\$ 17,662</u>
Cash and Investment Assets - Ending						
Cash and investments	<u>\$ (3,245)</u>	<u>\$ (31,124)</u>	<u>\$ 1,165</u>	<u>\$ 6,143</u>	<u>\$ -</u>	<u>\$ 17,662</u>
Total cash and investment assets - ending	<u>\$ (3,245)</u>	<u>\$ (31,124)</u>	<u>\$ 1,165</u>	<u>\$ 6,143</u>	<u>\$ -</u>	<u>\$ 17,662</u>
Cash and Investment Fund Balance - Ending						
Unrestricted	<u>\$ (3,245)</u>	<u>\$ (31,124)</u>	<u>\$ 1,165</u>	<u>\$ 6,143</u>	<u>\$ -</u>	<u>\$ 17,662</u>
Total cash and investment fund balance - ending	<u>\$ (3,245)</u>	<u>\$ (31,124)</u>	<u>\$ 1,165</u>	<u>\$ 6,143</u>	<u>\$ -</u>	<u>\$ 17,662</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010

(Continued)

	Title IV - Safe & Drug Free Schools	Fiscal Stabilization	Title I ARRA	Education Technology (Stimulus)	Stimulus Grant Lunch Equipment	Totals
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,910
State sources	-	-	-	-	-	125
Federal sources	-	52,994	90,300	97,847	10,400	522,471
Total receipts	-	52,994	90,300	97,847	10,400	570,506
Disbursements:						
Current:						
Instruction	214	127,083	88,089	73,386	-	481,476
Support services	6,698	57,148	18,175	5,215	28	111,450
Noninstructional services	-	-	-	-	-	105,708
Facilities acquisition and construction	-	-	43,495	-	10,372	65,776
Total disbursements	6,912	184,231	149,759	78,601	10,400	764,410
Excess (deficiency) of receipts over disbursements	(6,912)	(131,237)	(59,459)	19,246	-	(193,904)
Cash and investments - beginning	1,774	131,237	26,759	-	-	165,913
Cash and investments - ending	<u>\$ (5,138)</u>	<u>\$ -</u>	<u>\$ (32,700)</u>	<u>\$ 19,246</u>	<u>\$ -</u>	<u>\$ (27,991)</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ (5,138)</u>	<u>\$ -</u>	<u>\$ (32,700)</u>	<u>\$ 19,246</u>	<u>\$ -</u>	<u>\$ (27,991)</u>
Total cash and investment assets - ending	<u>\$ (5,138)</u>	<u>\$ -</u>	<u>\$ (32,700)</u>	<u>\$ 19,246</u>	<u>\$ -</u>	<u>\$ (27,991)</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ (5,138)</u>	<u>\$ -</u>	<u>\$ (32,700)</u>	<u>\$ 19,246</u>	<u>\$ -</u>	<u>\$ (27,991)</u>
Total cash and investment fund balance - ending	<u>\$ (5,138)</u>	<u>\$ -</u>	<u>\$ (32,700)</u>	<u>\$ 19,246</u>	<u>\$ -</u>	<u>\$ (27,991)</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2010

	Contributions and Donations	Purdue Grant	Totals
Additions:			
Contributions:			
Other	\$ 5,000	\$ -	\$ 5,000
Deductions:			
Administrative and general	-	5,403	5,403
Excess (deficiency) of total additions over total deductions	5,000	(5,403)	(403)
Cash and investment fund balance - beginning	-	-	-
Cash and investments - ending	<u>\$ 5,000</u>	<u>\$ (5,403)</u>	<u>\$ (403)</u>
Net assets:			
Cash and investments	<u>\$ 5,000</u>	<u>\$ (5,403)</u>	<u>\$ (403)</u>
Total net assets - cash and investment basis held in trust	<u>\$ 5,000</u>	<u>\$ (5,403)</u>	<u>\$ (403)</u>

21ST CENTURY CHARTER SCHOOL IN FOUNTAIN SQUARE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended June 30, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Improvements other than buildings	\$ 46,214
Machinery and equipment	<u>701,684</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 747,898</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2010

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Notes and loans payable:		
Common School Loans	\$ 1,170,828	\$ 24,649
Old National Notes	225,384	148,407
GEO Temporary Loan	<u>321,690</u>	<u>321,690</u>
Total governmental activities debt	<u>\$ 1,717,902</u>	<u>\$ 494,746</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
AUDIT RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

Adequate supporting documentation could not be provided to ensure the accuracy of the grant fund disbursements and ending balances. The nature of the Charter School's accounting system, directly affected the accuracy of the general fund transactions and balances. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors Report for the financial statements and Schedule of Federal Expenditures.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CONTROLS FOR GRANT MANAGEMENT

Adequate recordkeeping and accounting was not maintained for some grant funds. We did not receive grant awards, budgets, and expenditure reporting for several grants. The financial statements presented for audit report that some of these funds had balances from previous or current audit periods which could not be explained. These funds were on hand after the grant period had ended.

The Title I grant from 2006-2007 or prior year was accounted for on the records in Fund 4130, with a cash balance of \$6,143 on July 1, 2008, and the same balance on June 30, 2010. No activity was recorded. The grant would have closed and any cash balances would have been returned to the pass-through agency. Without the grant documents and financial reporting submitted to the pass-through agency we were unable to determine why the balance was on hand.

The Education for Homeless Children and Youth was accounted for in Fund 3900 (McKinney Vento Grant) and the financial statements presented for audit reported a beginning balance of \$21,329 on July 1, 2008. The Charter School received \$93,630 in the 2008-2009 school year. Expenses reported were substantially less than the funds on hand. The Charter School recorded expenses of \$15,160 and \$32,794 in 2008-2009 and 2009-2010, respectively. There was no explanation for the cash balance on hand of \$67,005, as of June 30, 2010. Grant records were not available for audit to provide a better understanding of the transactions or the reason for the cash balance on hand.

The Education Technology State Grants were accounted for in Fund 6850 (Title II, Part D Education Technology). No expenditures for the Fund were reported on the financial statements or on the grant schedule. The Fund had a cash balance of \$1,575 on July 1, 2008. There were receipts of \$27,888 and \$135 in the 2008-2009 and 2009-2010 school years, respectively. Grant records were not available for audit to provide a better understanding of the lack of expenses and the reason for the cash balance on hand.

The Improving Teacher Quality State Grant from the 2007-2008 year was accounted for on the records in Fund 6840 (Title II – Part A Improving Teacher Quality), with a cash balance of \$23,492 on July 1, 2008, and the same balance on June 30, 2009. No activity was recorded during this school year. A second grant was added to the Fund in the 2009-2010 school year. The 2007-2008 grant would have closed and any cash balances would have been returned to the pass-through agency. Without the grant documents and financial reporting submitted to the pass-through agency, we were unable to determine why the balance was on hand.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
AUDIT RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CONDITION OF RECORDS

The Charter School maintains their records electronically on a modified accrual basis of accounting. The computer software allows for individual funds to be established, but all of the cash is reported in the General Fund. To determine the cash balances of the individual funds, computations must be made using prior period ending cash balances, revenues and expenses which must be converted to actual cash receipts and disbursements.

The cash balances reported on the Biannual Financial Report (Form 9) filed with the Indiana Department of Education, as of July 1, 2008, did not agree to the cash balances reported for the General and the McKinney Vento Grant Funds as of June 30, 2008. The total cash balance of all funds reported on the Form 9 did not agree with the reconciled cash balance on June 30, 2008. We determined the differences were due to prior audit adjustments. The subsequent Form 9 information correctly reported the total ending cash balance of all funds, agreeing with the June 30, 2009, cash reconciliation. Adjustments were necessary to properly reflect the beginning cash balance at July 1, 2008, and then to make corrections to the reported cash receipts and disbursements. Adjustments were not provided by the Charter School to correct the 2008-2009 school year data. Corrections were made during the course of the audit and agreed upon by the Charter School.

Furthermore, the Charter School, throughout the school year, but mostly near the close of the school year, reclassifies a significant number of posted transactions from one fund to another and within the funds. Officials explained that they will review transactions with grant program administrators and locate discrepancies; however, controls were not established so that the transactions are reviewed by appropriate personnel prior to posting the entry. Such controls would then alleviate the need to perform such a large volume of reclassifications.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
AUDIT RESULTS AND COMMENTS
(Continued)

BANK LOAN DOCUMENTATION

Documentation of the borrowings and transactions for a bank loan was not presented for audit. The bank loan named the borrower as the Charter School and the GEO Foundation and was set up to borrow funds as needed. One withdrawal was made by the GEO Foundation for \$105,383.69 on September 15, 2009. The documentation supported that the funds were used to pay current bills of the Charter School. The Charter School later booked the loan proceeds on January 1, 2010. We had requested a transaction of all loan activity concerning the loan but did not receive the bank information.

Due to the lack of supporting bank information, we are unsure of the completeness surrounding the borrowing and the accuracy of the June 30, 2010, outstanding loan amount of \$125,383.69.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN CASH BALANCES

Some funds had overdrawn cash balances during the audit period. The cash balance of the General Fund was overdrawn at June 30, 2009 and June 30, 2010, in the amounts of \$304,881 and \$66,233, respectively. Other funds also had overdrawn cash balances at June 30, 2010. These funds were School Lunch, Textbook Rental and Purdue Grant.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FUND SOURCES AND USES - TITLE I

Title I Grant Funds were used for non-allowable costs, as discussed in the February 12, 2010, On-Site Monitoring Review for Title I Grants conducted by the Indiana Department of Education (IDOE). The comment was subsequently satisfactorily resolved and cleared by the IDOE.

The report contained the following comment:

"Findings of Non-Compliance, Required Actions, and Recommendations for Monitoring Topic 5:

Schoolwide Program Plan: Fountain Square Academy submitted a copy of their current Schoolwide Plan. A thorough review of the Schoolwide Plan found that several of the required components were missing or incomplete. Fountain Square Academy was also not able to provide evidence that parents were involved in the review and revision of the Schoolwide Plan. (See Attachment D)

Required Action: Fountain Square Academy must revise their Schoolwide Plan with all required components. Specifically, components 3, 6, and 7 must be revised and submitted to the IDOE by May 28, 2010. In addition, evidence of parent input on the revisions must be submitted with the revised plan.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
AUDIT RESULTS AND COMMENTS
(Continued)

Use of Funds in Implementation of Schoolwide Plan: Based on a review of fiscal expenditures, two items were purchased with Title I funds that were not approved by the IDOE nor were the items identified as a need in the Schoolwide Plan. The purchase of "PE Equipment" in the amount of \$465.96 and the purchase of "Meal Time Software" in the amount of \$1,573.33 are not considered to be an upgrade to the entire educational program and were not approved expenditures in the Title I grant application.

Required Action: Fountain Square Academy must chargeback \$2,039.29 (total of two items above) into the Title I program and provide evidence that these expenditures are not charged to Title I. Please submit a copy of the claim voucher for the above items showing that funds were charged back to the general funds account. Evidence of the chargeback must be submitted to the IDOE by May 28, 2010."

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OFFICIAL BONDS

Officials bonds for the Corporation Treasurer as well as the Extra-Curricular Treasurer were not found recorded nor were they provided for audit.

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; and approved by the governing body of the school corporation. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds, IC 36-2-7-10.

The treasurer of each extra-curricular account shall provide a faithful performance of duty bond for one year, the term of the office. The amount of the bond shall be fixed and approved by the school superintendent and principal approximating the total amount of anticipated funds which will come into the hands of the treasurer at any one time during the regular school year, IC 20-41-1-6. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder and a new bond shall be issued and filed each year. If either school lunch funds or textbook rental funds are handled through an extra-curricular account, the governing body of the school corporation shall approve the amount of the bond of the treasurer, IC 20-41-2-6. The bond may be either an individual bond for each extra-curricular treasurer or a single blanket position bond for all extra-curricular treasurers, IC 20-41-1-6. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
AUDIT RESULTS AND COMMENTS
(Continued)

COMPENSATION AND BENEFITS

The Charter School Board did not formally approve any of the rates of pay for employees of the Charter School. We identified some work agreements which were signed by the employee and the principals but they were not approved by the School Board. The payroll specialist's authorized rates of pay were documented in a schedule emailed to her from the Treasurer, and at times the rates were not the same amount as indicated by the work agreement signed by the employee and the principal. The Treasurer indicated that in order for a work agreement to be approved, the compensation amount must be approved by the Treasurer, not just signed by the employee and the principal. Therefore, the work agreements provided for audit were not official work agreements and the amounts authorized by the Treasurer were the appropriate amounts for payment. Without a School Board approved salary schedule, when these conflicting issues arose, we were not able to identify the appropriate amounts of pay that were authorized to be paid to the employees.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

CERTIFIED REPORT NOT FILED

The Charter School did not file a certified report of compensation of officers and employees (Form 100-R) with the State Board of Accounts for the years 2008 and 2009.

IC 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

CAPITAL ASSET POLICY AND RECORDS

Information presented for audit did not indicate that a capital asset policy had been adopted or approved. The prescribed form or an approved form (Capital Asset Form 369) was not in use. Alternate records were maintained.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE 21ST CENTURY CHARTER SCHOOL –
FOUNTAIN SQUARE, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the 21st Century Charter School - Fountain Square (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2009 and 2010. The School Corporation'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 Corporation's management. Our responsibility is to express an opinion on the School Corporation'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 Corporation'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 Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2009 and 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-3.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

(Continued)

federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Corporation's internal control over compliance.

A control deficiency in a School Corporation's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2010-3 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, Board of Directors, 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 11, 2011

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-09	Total Federal Awards Expended 06-30-10
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program				
	10.553	FY 08-09	\$ 6,069	\$ -
		FY 09-10	-	14,910
			<u>6,069</u>	<u>14,910</u>
Total for program				
	10.555	FY 08-09	41,601	-
		FY 09-10	-	78,056
			<u>41,601</u>	<u>78,056</u>
Total for program				
Total for cluster				
			<u>47,670</u>	<u>92,966</u>
ARRA - School Lunch Equipment (Stimulus)				
	10.579.001	FY 2010	-	10,400
Total for federal grantor agency				
			<u>47,670</u>	<u>103,366</u>
U.S. DEPARTMENT OF JUSTICE				
Pass-Through Indiana Criminal Justice Institute				
Juvenile Justice and Delinquency Prevention - Allocation to States				
Title II JJ DP/ICJI/TAS				
	16.540	FY 08/09	25,352	-
Total for federal grantor agency				
			<u>25,352</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies				
	84.010	08-9480	27,339	-
		09-9480	240,892	-
		FY 08/09	39,528	41,529
		10-9480	-	172,570
			<u>307,759</u>	<u>214,099</u>
Total for program				
ARRA - Title I, Grants to Local Education Agencies, Recovery				
	84.389	FY 09/10	-	149,759
Total for cluster				
			<u>307,759</u>	<u>363,858</u>
Special Education Cluster				
Special Education - Grants to States				
	84.027	FY 09-10	22,245	27,338
Total for cluster and program				
			<u>22,245</u>	<u>27,338</u>
Educational Technology State Grants Cluster				
ARRA - Education Technology States Grants, Recovery Act				
	84.386	FY 09-10	-	78,601
Total for cluster and program				
			<u>-</u>	<u>78,601</u>
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund - Education				
State Grants, Recovery Act				
	84.394	FY 09-10	-	184,231
Total for cluster and program				
			<u>-</u>	<u>184,231</u>
Safe and Drug Free Schools and Communities - State Grants				
Title IV, Part A, Safe and Drug Free Schools				
	84.186	FY 09-10	-	6,912
Education for Homeless Children and Youth				
	84.196	FY 08-09	15,160	-
		FY 09-10	-	32,794
			<u>15,160</u>	<u>32,794</u>
Total for program				
State Grants for Innovative Programs				
Title V, Innovative Programs				
	84.298	FY 09-10	-	167
Improving Teacher Quality State Grants				
	84.367	FY 09-10	-	12,860
Total for program				
			<u>-</u>	<u>12,860</u>
Total for federal grantor agency				
			<u>345,164</u>	<u>706,761</u>
Total federal awards expended			<u>\$ 418,186</u>	<u>\$ 810,127</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the 21st Century Charter School - Fountain Square (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporation shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the year ended June 30, 2009:

Program Title	Federal CFDA Number	2009
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	<u>\$ 25,352</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Disclaimer

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

Name of Federal Program or Cluster

Title I, Part A Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2010-1, CONDITION OF RECORDS

The Charter School maintains their records electronically on a modified accrual basis of accounting. The computer software allows for individual funds to be established, but all of the cash is reported in the General Fund. To determine the cash balances of the individual funds, computations must be made using prior period ending cash balances, revenues and expenses which must be converted to actual cash receipts and disbursements.

The cash balances reported on the Biannual Financial Report (Form 9) filed with the Indiana Department of Education, as of July 1, 2008, did not agree to the cash balances reported for the General and the McKinney Vento Grant Funds as of June 30, 2008. The total cash balance of all funds reported on the Form 9 did not agree with the reconciled cash balance on June 30, 2008. We determined the

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

differences were due to prior audit adjustments. The subsequent Form 9 information correctly reported the total ending cash balance of all funds, agreeing with the June 30, 2009, cash reconciliation. Adjustments were necessary to properly reflect the beginning cash balance at July 1, 2008, and then to make corrections to the reported cash receipts and disbursements. Adjustments were not provided by the Charter School to correct the 2008-2009 school year data. Corrections were made during in the course of the audit and agreed upon by the Charter School.

Furthermore, the Charter School throughout the school year, but mostly near the close of the school year, reclassified a significant number of posted transactions from one fund to another. Officials explained that they will review transactions with grant administrators and locate discrepancies; however, controls were not established so that the transactions are reviewed by appropriate personnel prior to posting the entry. Such controls would then alleviate the need to perform such a large volume of reclassifications.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We recommended Charter School Officials establish a system for maintaining cash balances by fund in the general ledger. Controls should be established for grant administrators and other officials to review disbursements prior to posting to ensure proper allocation to the appropriate funds. Proper grants management and record retention should be implemented.

FINDING 2010-2, CONTROLS FOR GRANT MANAGEMENT

Several grant agreements and expenditure reports were not maintained and were not available for audit. Some grant funds had unexplained cash balances remaining from older grants which had ended. The lack of records concerned three (3) of the major funds reported in the financial statements.

The Title I grant from 2006-2007 or prior year was accounted for on the records in Fund 4130, with a cash balance of \$6,143 on July 1, 2008, and the same balance on June 30, 2010. No activity was recorded. The grant would have closed and any cash balances would have been returned to the pass-through agency. Without the grant documents and financial reporting submitted to the pass-through agent, we were unable to determine why the balance was on hand.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Education for Homeless Children and Youth was accounted for in Fund 3900 (McKinney Vento Grant) and the financial statements reported a beginning balance of \$21,329 on July 1, 2008. The Charter School received \$93,630 in the 2008-2009 school year. Expenses reported were substantially less than the funds on hand. The Charter School recorded expenses of \$15,160 and \$32,794 in 2008-2009 and 2009-2010, respectively. There was no explanation for the cash balance on hand of \$67,005 as of June 30, 2010. Grant records were not presented for audit to provide a better understanding of the transactions or the reason for the cash balance on hand.

The Education Technology State Grants were accounted for in Fund 6850 (Title II, Part D Education Technology). No expenditures for the Fund were reported on the financial statements or on the grant schedule. This fund had a cash balance of \$1,575 on July 1, 2008. There were receipts of \$27,888 and \$135 in the 2008-2009 and 2009-2010 school years, respectively. Grant records were not presented for audit to provide a better understanding of the lack of expenses and the reason for the cash balance on hand.

The Improving Teacher Quality State Grant from the 2007-2008 year was accounted for on the records in Fund 6840 (Title II – Part A Improving Teacher Quality), with a cash balance of \$23,492 on July 1, 2008, and the same balance on June 30, 2009. No activity was recorded during this school year. A second grant was added to the Fund in the 2009-2010 school year. The 2007-2008 grant would have closed and any cash balances would have been returned to the pass-through agency. Without the grant documents and financial reporting submitted to the pass-through agency, we were unable to determine why the balance was on hand.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-3, CONTROLS FOR GRANT MANAGEMENT AND CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program (CFDA Title): Title I Grants to Local Educational Agencies
Pass-Through Entity: Indiana Department of Education
Award Numbers and Years: 2006 - 2010

Adequate recordkeeping and accounting was not maintained for the Title I Grants.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Title I grant from 2006-2007 or prior year was accounted for on the records in Fund 4130, with a cash balance of \$6,143 on July 1, 2008, and the same balance on June 30, 2010. No activity was recorded. The grant would have closed and any cash balances would have been returned to the pass-through agency. Without the grant documents and financial reporting submitted to the pass-through agency, we were unable to determine why the balance was on hand.

EDGAR § 80.20 states in part: ". . .

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
- (7) Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Because of the lack of grant documents and the presence of remaining cash balances outside of the grant periods, the Charter School is not in compliance with the Federal guidelines. The remaining cash balances may be requested to be returned to the State Department of Education.

We recommended that the Charter School Officials contact the Indiana Department of Education to resolve these issues with the specific grants. Additionally, we recommend the Charter School Officials implement proper grant management for all grants and satisfactorily resolve unexplained cash balances for the grants funds mentioned above.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters were reportable.

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-1 CONDITION OF RECORDS

Federal Agency:	U.S. Department of Education
Federal Programs:	Title 1 Part A Cluster
CFDA Number:	
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	completed

- The original findings regarding cash balances were from June 2008. As noted in the audit, the school has already corrected the problem with better accounting processes and staff, and there have been no further issues. The school will continue to monitor the cash balances and ledgers to ensure continued compliance.
- The school will review and improve processes to ensure fewer reclasses during the year. It is anticipated that the state's new reimbursement model will also help ensure compliance.



Dana L. Johnson, Treasurer

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-2 CONTROLS FOR GRANT MANAGEMENT

Federal Agency:	U.S. Department of Education
Federal Programs:	Title 1 Grants to Local Educational Agencies
CFDA Number:	
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	March 1, 2011

- The Findings dated back to the 2008-09 school year, and prior. The school has already changed procedures and staff to ensure better controls. This process has been successful, as evidenced by lack of findings for the 2009-10 school year. The school will continue to use the new processes to ensure compliance.
- The school recognizes that it will need to work with the Indiana Department of Education to resolve the older discrepancies, and will do so.



Dana L. Johnson

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-3 CONTROLS FOR GRANT MANAGEMENT AND CASH MANAGEMENT

Federal Agency:	U.S. Department of Education
Federal Programs:	Title 1 Grants to Local Educational Agencies
CFDA Number:	
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	March 1, 2011

- The Findings dated back to the 2008-09 school year, and prior. The school has already changed procedures and staff to ensure better controls. This process has been successful, as evidenced by lack of findings for the 2009-10 school year. The school will continue to use the new processes to ensure compliance.
- The school recognizes that it will need to work with the Indiana Department of Education to resolve the older discrepancies, and will do so.



Dana L. Johnson

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
EXIT CONFERENCE

The contents of this report were discussed on February 11, 2011, with Dana Johnson, Treasurer; Kevin Teasley, Superintendent of Schools; and Michelle Baldwin, Board Attorney. The official response has been made a part of this report and may be found on pages 48 and 49.

MEMORANDUM

TO: INDIANA STATE BOARD OF ACCOUNTS
FROM: FOUNTAIN SQUARE ACADEMY
RE: AUDIT RESULTS 2008-2010
DATE: March 1, 2011

Fountain Square Academy wishes to thank the examiners at the State Board of Accounts for their thorough review and guidance. We would like to offer the following response to the Financial Opinion. (A separate response has been provided in the form of Corrective Action Plans for the few federal findings.)

FINDING: Condition of Records

The finding on records relates to the condition of records dating back to June 2008. Those issues have already been resolved, as evidenced by no findings for any other year.

The school has further taken steps to reduce the number of reclassifications needed at the end of the year by adding an additional review step for grant management.

FINDING: Bank Loan Documentation

The school did not obtain the additional information from the bank prior to the audit completion. The information is available, and supports the numbers presented for audit.

FINDING: Overdrawn Cash Balances

The cash balance in 2009 was over drawn due to delays in Property Tax distributions. In 2010, the overdraw was a classification error, not a true over-draw error. Further, two of the grants listed in the audit are grants that require funds to be spent and then reimbursed. (School Lunch and Purdue Grant). By definition, those grants would be overdrawn. The Textbook fund was, like the General Fund, not truly overdrawn, but had too many expenses allocated, which were later properly reclassified. The school has put additional review steps into its accounting procedures to avoid this issue in the future.

FINDING: Fund Sources and Uses – Title I

We are unclear as to why this finding is in the audit, as it was already reported on the Title I On-Site Monitoring Review for Title I grants, and the audit comment states that this issue has been “subsequently satisfactorily resolved and cleared by the IDOE.” We respectfully request this comment be removed from the audit as redundant (already reported elsewhere) and moot (resolved).

FINDING: Official Bonds

This issue was an oversight, and the school is in process of establishing the official bonds for both Corporation Treasurer and Extra-Curricular Treasurer.

FINDING: Compensation and Benefits

We respectfully disagree with this finding, as the Charter School Board did approve the salaries for employees as part of the School’s annual budget. Charter schools are not required to approve salary schedules. The School’s approved process is for the Treasurer to certify the salaries, which is properly what occurred here.

FINDING: Certified Report Not Filed

The school has remedied this finding.

FINDING: Capital Asset Policy and Records

The school respectfully disagrees with this finding as being an area for concern. Although the exact Capital Asset form has not been used, the audit does note that alternate records were maintained. The school does maintain a Fixed Assets Ledger with the required information.

Thank you for the opportunity to provide a response.

Respectfully submitted,



Dana L. Johnson, Treasurer