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October 4, 2013

Charter School Board
Drexel Foundation for Educational Excellence, Inc.
3401 West 5th Avenue
Gary, IN 46406

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Mulcahy, Pauritsch, Salvador & Co., LTD, Independent Public Accountants, for the period July 1, 2010 to June 30, 2011. In our opinion, the audit report did not follow all of the guidelines established by the State Board of Accounts. Part of the requirements established in the Guidelines for the Audits of Charter Schools Performed by Private Examiners include presenting an audit report that meets all of the OMB Circular A-133 standards. In the report presented, the Schedule of Expenditures of Federal Awards did not identify appropriate grant clusters and the titles of the grants did not match with the grant titles listed in the Catalog of Federal Domestic Assistance; the Schedule of Findings and Questioned Costs contained outdated language from Statements on Auditing Standards 112; the Section III finding no. 2011-3 did not identify the context of finding; and the Summary Schedule of Prior Audit Findings should have been completed by the Charter School and contain the status of each finding. Even though there were variances from the requirements, they would not materially affect the opinion that was given by the Private Examiner. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Drexel Foundation for Educational Excellence, Inc., as of June 30, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 27 through 30 contain four current audit findings. Page 31 contains the status of four prior audit findings. Management's response is on pages 32 through 35.

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

State Board of Accounts

**DREXEL FOUNDATION FOR
EDUCATIONAL EXCELLENCE, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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INTRODUCTORY SECTION

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
GOVERNING BOARD
JUNE 30, 2011**

Anne Thompson, President

Dr. Rose Marie Banks, Vice President

Brenda Smith, Secretary

James Harris, Treasurer

FINANCIAL SECTION

To the Governing Board of
Drexel Foundation for Educational Excellence, Inc.
Chicago, Illinois

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of Drexel Foundation for Educational Excellence, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Drexel Foundation for Educational Excellence, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drexel Foundation for Educational Excellence, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2012, on our consideration of Drexel Foundation for Educational Excellence, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the schedule of funding progress included on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the audit procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Murphy, Pawlitsch, Salvador & Co., Ltd.

Orland Park, Illinois
August 16, 2012

STATEMENT OF FINANCIAL POSITION

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Current assets:		
Cash	\$	2,837,224
Receivables:		
Accounts		5,721,200
Accrued interest		458
Grants		723,713
Certificate of deposit		521,968
Prepaid expenses		<u>288,401</u>
Total current assets	\$	10,092,964
Property and equipment:		
Land		859,886
Structures and improvements		16,789,464
Equipment		2,480,641
Furniture and fixtures		781,762
Less accumulated depreciation		<u>(2,983,363)</u>
Net property and equipment		17,928,390
Other assets:		
Cash - restricted for debt service		1,505,075
Debt issuance costs, net		<u>813,777</u>
Total other assets		<u>2,318,852</u>
Total assets	\$	<u>30,340,206</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 104,663
Accrued expenses	1,471,811
Management fees payable	64,199
Deferred grant revenue	29,820
Current portion of long-term debt	<u>2,399</u>

Total current liabilities \$ 1,672,892

Long-term liabilities:

Long-term debt, less current portion	23,444,639
Accrued expenses	<u>381,533</u>

Total long-term liabilities 23,826,172

Total liabilities 25,499,064

Net assets:

Unrestricted	<u>4,841,142</u>
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Total liabilities and net assets \$ 30,340,206

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Revenues and support:		
Grants:		
State	\$ 11,667,338	
Federal	2,838,398	
Fees	274,711	
Interest income	10,829	
Contributions	4,180	
Other	<u>74,601</u>	
Total revenues and support		\$ 14,870,057
Expenses:		
Program services	10,821,356	
Supporting services:		
Management and general	<u>4,423,241</u>	
Total expenses		<u>15,244,597</u>
Change in net assets		(374,540)
Net assets at beginning of year		<u>5,215,682</u>
Net assets at end of year		<u>\$ 4,841,142</u>

See notes to financial statements.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:		
Change in net assets	\$	(374,540)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization		28,579
Depreciation		950,835
Effects of changes in operating assets and liabilities:		
Receivables		(244,696)
Prepaid expenses		(62,516)
Accounts payable and accrued expenses		121,666
Management fees payable		26,114
Deferred grant revenue		<u>(394,264)</u>
Net cash provided by operating activities	\$	51,178
Cash flows from investing activities:		
Purchase of certificate of deposit		(3,091)
Purchases of property and equipment		<u>(394,981)</u>
Net cash used by investing activities		(398,072)
Cash flows from financing activities:		
Proceeds from long-term debt		6,664
Decrease in cash - restricted for debt service		111,225
Principal repayments of long-term debt		<u>(272,339)</u>
Net cash used by financing activities		<u>(154,450)</u>
Net decrease in cash		(501,344)
Cash at beginning of year		<u>3,338,568</u>
Cash at end of year	\$	<u>2,837,224</u>

See notes to financial statements.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

The Drexel Foundation for Educational Excellence, Inc. (Foundation) supports educational programs for the children of Gary, Indiana through Thea Bowman Leadership Academy, whose mission is to become a model in Indiana for high performance urban schools which prepare all students for academic success and leadership roles in their community. Thea Bowman Leadership Academy is an Indiana charter school located in Gary, Indiana and serves grades kindergarten through high school.

B. Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

C. Income Taxes

The Foundation operates as a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation's Annual Return of Organization Exempt from Income Tax (Form 990) is subject to examination by the Internal Revenue Service, generally for three years after the date it was filed.

D. Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Bank account balances, at times, exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

E. Accounts Receivable

Accounts receivable are reported at their outstanding balance reduced by the allowance for doubtful accounts, if any.

The allowance for doubtful accounts is increased by charges to income and decreased by chargeoffs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the past collection experience of the Foundation, known and inherent risks of the payors comprising the accounts receivable balance, adverse situations that may affect the payor's ability to pay, and current economic conditions. Accounts receivable are charged off when management deems the balance to be uncollectible.

Based on a review of outstanding receivables, management determined that an allowance for doubtful accounts was not necessary at June 30, 2011.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

F. Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair value upon receipt. It is the Foundation's policy to capitalize items with a cost or estimated fair value in excess of \$1,000. Lesser amounts are expensed. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed as incurred.

G. Debt Issuance Costs

Debt issuance costs are being amortized over the life of the related debt using the straight-line method.

H. Deferred Grant Revenue

Deferred grant revenue consists of amounts received for programs which have not been expended as of June 30, 2011.

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Functional Allocation of Expenses

Salaries and related employee expenses are allocated to program and supporting service functions based on actual time employees spend on each function. The remaining expenses are specifically allocated whenever practical, or are allocated based on salaries or space utilization.

K. Date of Management's Review

Management has evaluated subsequent events through August 16, 2012, which is the date the financial statements were available to be issued.

NOTE 2. CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2011 was \$1,286,651.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

NOTE 3. DEBT ISSUANCE COSTS

Debt issuance costs as of June 30, 2011 are summarized as follows:

Cost	\$ 857,349
Less accumulated amortization	<u>(43,572)</u>
Net	<u>\$ 813,777</u>

Amortization expense for the year ended June 30, 2011 was \$28,579.

Estimated future amortization in years ending June 30 is as follows:

2012	\$ 28,579
2013	28,579
2014	28,579
2015	28,579
2016	28,579
Thereafter	<u>670,882</u>
Total	<u>\$ 813,777</u>

NOTE 4. LONG-TERM DEBT

Indiana Finance Authority Educational Facilities Revenue Bonds, Series 2009 that are collateralized by the building and improvements. The loan principal will be paid in annual principal installments that vary between \$230,000 - \$2,890,000 through October, 2039. Interest payments will be made semi-annually at rates that range from 6% to 7% in accordance with the bond agreement. The interest rate at June 30, 2011 was 6%.

\$ 18,935,000

A note payable to the State of Indiana that is due in semi-annual installments of \$81,676 plus interest at 4%, with the final payment due in January, 2033. The note payable agreement allows the Foundation to defer payment of the semi-annual installments through January, 2013. The payment due in July, 2013 will be equal to \$81,876 plus the interest that accrued during the deferral period.

3,267,041

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

A note payable to the State of Indiana that is due in semi-annual installments of \$38,765 plus interest at 4%, with the final payment due in July, 2029. The note payable agreement allows the Foundation to defer payment of the semi-annual installments from July 1, 2011 through January, 2013. The payment due in July, 2013 will be equal to \$38,765 plus the interest that accrued during the deferral period.

1,240,465

An equipment loan that is due in monthly installments of \$267, non-interest bearing, with the final payment due in May, 2013. The note is collateralized by specific equipment.

4,532

Total

23,447,038

Less current portion

(2,399)

Long-term portion

\$ 23,444,639

The future maturities of long-term debt in years ending June 30 included in the following schedule are based on the terms of the December, 2009 bond agreement.

2012	\$ 2,399
2013	232,133
2014	485,881
2015	500,881
2016	515,881
Thereafter	<u>21,709,863</u>
Total	<u>\$ 23,447,038</u>

Interest expense for the year ended June 30, 2011 was \$1,424,776.

The Indiana Finance Authority Educational Facilities Revenue Bonds contain certain restrictive covenants that were not met during the year. Additionally, the Standard & Poor's Rating Services lowered the long-term rating on the Indiana Finance Authority Educational Facilities Revenue Bonds from BBB- to BB+.

NOTE 5. LEASING ARRANGEMENT

The Foundation conducts its elementary school operations from facilities that are leased under a noncancelable lease that expired in July, 2012. An extension of the lease is currently being negotiated. Facility rent payments are based on per student usage at the current annual rate of \$368.73 per student. The rate is increased three percent annually. Rent expense under this lease for the year ended June 30, 2011 was \$263,839.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

NOTE 6. EMPLOYEE RETIREMENT PLANS

A. Indiana Public Employees' Retirement Fund

The Foundation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. PERF administers the multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. All support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment participate in the PERF plan. There were 116 active Foundation employees covered by this retirement plan as of June 30, 2011. State statutes authorize the Foundation to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. The annuity savings account consists of contributions set by state statute at 3% of compensation, plus the earnings credited to members' accounts. The Foundation may elect to make the contributions on behalf of the member. The Foundation's pension contribution for the year ended June 30, 2011 was \$218,819.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Public Employees' Retirement Fund, Harrison Building, Suite 700, 143 West Market Street, Indianapolis, IN 46204, by calling (317) 233-4162 or (888) 526-1687, or reviewing the Annual Report online at www.in.gov/perf.

PERF Funding Policy and Annual Pension Cost. The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities. The amortization method and period are level dollar closed over 30 years. The actuarial funding method is entry age normal cost. The employer required contribution is determined using an asset smoothing method. The actuarial valuation date is June 30, 2011.

Actuarial assumptions include: 1) an investment rate of return of 7%, 2) a projected salary increase of 3.25% - 4.50%, and 3) a 1% cost of living increase granted in each future year, applying to current and future retirees.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

The following schedules show the funding progress, net pension obligation, and trend information for PERF as of June 30, 2011:

Annual required contribution	\$ 149,454
Interest on net pension obligation	(8,137)
Adjustment to annual required contribution	<u>9,368</u>
Annual pension cost	150,685
Contributions made	<u>218,819</u>
Decrease in net pension obligation	(68,134)
Net pension obligation at beginning of year	<u>(116,248)</u>
Net pension obligation at end of year	<u>\$ (184,382)</u>

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 64,153	193 %	\$ (63,059)
June 30, 2010	123,817	143	(116,248)
June 30, 2011	150,685	145	(184,382)

B. Teachers' Retirement Fund

The Foundation 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 Foundation authority to contribute to the plan. The TRF 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 members' contributions, set by the state statute at 3% of compensation, plus the interest credited to the member's account. The Foundation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial schedules and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling (317) 232-3860.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

Funding Policy and Annual Pension Cost. The Foundation 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 Foundation 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.

NOTE 7. POST EMPLOYMENT BENEFIT OBLIGATIONS

The Foundation provides benefits to former or inactive employees after employment but before retirement. Those benefits include participation in the Indiana Public Employees' Retirement Fund. It is not practicable for the Foundation to reasonably estimate the amount of its liability for post-employment benefits; accordingly, no liability has been recognized in the accompanying statement of financial position. The Foundation recognizes the costs of post-employment benefits when actually paid.

REQUIRED SUPPLEMENTARY INFORMATION

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FUNDING PROGRESS -
PUBLIC EMPLOYEES' RETIREMENT FUND
JUNE 30, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability - (AAL)</u>	<u>Over- funded (Unfunded) AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a % of Covered Payroll</u>
June 30, 2011	\$ 746,088	\$ 739,260	\$ 6,828	100.00 %	\$ 3,396,366	0.00 %
June 30, 2010	667,323	485,659	181,664	100.00	\$ 2,562,520	0.00
June 30, 2009	457,054	310,114	146,940	100.00	\$ 2,084,202	0.00

SUPPLEMENTARY INFORMATION

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS	<u>Drexel</u> <u>Foundation</u>	<u>Thea Bowman</u>	<u>Total</u>
Current assets:			
Cash	\$ 10,268	\$ 2,826,956	\$ 2,837,224
Receivables:			
Accounts	-	5,721,200	5,721,200
Accrued interest	-	458	458
Grants	-	723,713	723,713
Certificate of deposit	-	521,968	521,968
Prepaid expenses	-	<u>288,401</u>	<u>288,401</u>
Total current assets	<u>10,268</u>	<u>10,082,696</u>	<u>10,092,964</u>
Property and equipment:			
Land	-	859,886	859,886
Structures and improvements	-	16,789,464	16,789,464
Equipment	-	2,480,641	2,480,641
Furniture and fixtures	-	781,762	781,762
Less accumulated depreciation	<u>-</u>	<u>(2,983,363)</u>	<u>(2,983,363)</u>
Net property and equipment	<u>-</u>	<u>17,928,390</u>	<u>17,928,390</u>
Other assets:			
Cash - restricted for debt service	-	1,505,075	1,505,075
Debt issuance costs, net	<u>-</u>	<u>813,777</u>	<u>813,777</u>
Total other assets	<u>-</u>	<u>2,318,852</u>	<u>2,318,852</u>
Total assets	<u>\$ 10,268</u>	<u>\$ 30,329,938</u>	<u>\$ 30,340,206</u>

LIABILITIES AND NET ASSETS	<u>Drexel</u> <u>Foundation</u>	<u>Thea Bowman</u>	<u>Total</u>
Current liabilities:			
Accounts payable	\$ 1,554	\$ 103,109	\$ 104,663
Accrued expenses	-	1,471,811	1,471,811
Management fees payable	-	64,199	64,199
Deferred grant revenue	-	29,820	29,820
Current portion of long-term debt	<u>-</u>	<u>2,399</u>	<u>2,399</u>
Total current liabilities	<u>1,554</u>	<u>1,671,338</u>	<u>1,672,892</u>
Long-term liabilities:			
Notes payable, less current portion	-	23,444,639	23,444,639
Accrued expenses	<u>-</u>	<u>381,533</u>	<u>381,533</u>
Total long-term liabilities	<u>-</u>	<u>23,826,172</u>	<u>23,826,172</u>
Total liabilities	1,554	25,497,510	25,499,064
Net assets:			
Unrestricted	<u>8,714</u>	<u>4,832,428</u>	<u>4,841,142</u>
Total liabilities and net assets	<u>\$ 10,268</u>	<u>\$ 30,329,938</u>	<u>\$ 30,340,206</u>

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	<u>Drexel</u> <u>Foundation</u>	<u>Thea Bowman</u>	<u>Total</u>
Revenues and support:			
Grants:			
State	\$ -	\$ 11,667,338	\$ 11,667,338
Federal	-	2,838,398	2,838,398
Fees	-	274,711	274,711
Interest income	10	10,819	10,829
Contributions	3,000	1,180	4,180
Other	<u>38,274</u>	<u>36,327</u>	<u>74,601</u>
Total revenues and support	<u>41,284</u>	<u>14,828,773</u>	<u>14,870,057</u>
Expenses:			
Program services	-	10,821,356	10,821,356
Supporting services:			
Management and general	<u>39,781</u>	<u>4,383,460</u>	<u>4,423,241</u>
Total expenses	<u>39,781</u>	<u>15,204,816</u>	<u>15,244,597</u>
Change in net assets	1,503	(376,043)	(374,540)
Net assets at beginning of year	<u>7,211</u>	<u>5,208,471</u>	<u>5,215,682</u>
Net assets at end of year	<u>\$ 8,714</u>	<u>\$ 4,832,428</u>	<u>\$ 4,841,142</u>

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF EXPENSES
YEAR ENDED JUNE 30, 2011

Salaries	\$ 6,989,897
Amortization	28,579
Benefits	929,217
Books and supplies	762,403
Depreciation	950,835
Education	303,346
Food service expense	672,488
Insurance	644,508
Interest	1,424,776
Management fees	1,129,144
Miscellaneous	12,209
Office expense	239,828
Professional fees	179,211
Rent	265,055
Repairs and maintenance	<u>713,101</u>
Total expenses	<u>\$ 15,244,597</u>

SINGLE AUDIT SECTION

To the Governing Board of
Drexel Foundation for Educational Excellence, Inc.
Chicago, Illinois

**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**

We have audited the financial statements of Drexel Foundation for Educational Excellence, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated August 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (items 2011-1 and 2011-2).



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Drexel Foundation for Educational Excellence, Inc.'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Drexel Foundation for Educational Excellence, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Drexel Foundation for Educational Excellence, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Governing Board, Ball State University, the Indiana Department of Education, 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.

Mulcahy, Pawlitsch, Salvador & Co., Ltd.

Orland Park, Illinois
August 16, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Governing Board of
Drexel Foundation for Educational Excellence, Inc.
Chicago, Illinois

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

Compliance

We have audited Drexel Foundation for Educational Excellence, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Drexel Foundation for Educational Excellence, Inc.'s major federal programs for the year ended June 30, 2011. Drexel Foundation for Educational Excellence, Inc.'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 Drexel Foundation for Educational Excellence, Inc.'s management. Our responsibility is to express an opinion on Drexel Foundation for Educational Excellence, Inc.'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 Drexel Foundation for Educational Excellence, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Drexel Foundation for Educational Excellence, Inc.'s compliance with those requirements.

As described in item 2011-3 in the accompanying schedule of findings and questioned costs, Drexel Foundation for Educational Excellence, Inc. did not comply with requirements regarding the timely filing of the audit report, that are applicable to its federal programs. Compliance with such requirements is necessary, in our opinion, for Drexel Foundation for Educational Excellence, Inc., to comply with the requirements applicable to its programs.

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



Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-4. A *significant deficiency in internal control over compliance*, is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Drexel Foundation for Educational Excellence, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Drexel Foundation for Educational Excellence, Inc.'s responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Governing Board, Ball State University, the Indiana Department of Education, 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.

Mulcahy, Pauritsch, Salvador & Co., Ltd.

Orland Park, Illinois
August 16, 2012

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor Pass-through Grantor/ Program Title	Federal C.F.D.A. Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Education:			
Passed through Indiana Department of Education:			
Title I - Low Income (M)	84.010	FY 09/10	\$ 181,121
Title I - Low Income (M)	84.010	FY 10/11	896,643
ARRA - Title I - Low Income (M)	84.389	FY 09/10	19,077
Title II - Teacher Quality	84.281	FY 09/10	97,878
I.D.E.A. (M)	84.027	FY 09/10	19,881
I.D.E.A. (M)	84.027	FY 10/11	148,312
ARRA - I.D.E.A. (M)	84.391	FY 09/10	108,589
Charter School Facilities Grant	84.282	FY 10/11	<u>552,700</u>
Total expenditures of federal awards			<u>\$ 2,024,201</u>

(M) - Major Program

See notes to schedule of expenditures of federal awards.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Drexel Foundation for Educational Excellence, Inc. (Foundation) and is presented on the cash basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B. Relationship to Basic Financial Statements

Federal financial assistance received is reflected in the Foundation's financial statements within grant revenue.

C. Non-Cash Assistance

Non-cash assistance amounted to zero.

D. Insurance in Effect

Insurance in effect amounted to zero.

E. Loan or Loan Guarantees

Loan or loan guarantees amounted to zero.

NOTE 2. SUBRECIPIENTS

The Foundation provided no federal awards to subrecipients.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: UNQUALIFIED

Internal control over financial reporting:

- Material weaknesses identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Low Income
84.389	ARRA - Title I - Low Income
84.027	I.D.E.A.
84.391	ARRA - I.D.E.A.

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

Auditee qualified as low-risk auditee? yes X no

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

1. FINDING NUMBER: 2011-1 **2. THIS FINDING IS:** New Repeat from Prior Year?
Year originally reported 2010

3. Criteria or specific requirement

Generally Accepted Accounting Principles require records to be kept on the accrual basis of accounting.

4. Condition

Organization did not properly accrue payroll and payroll taxes at June 30, 2011.

5. Context

Organization overstated the accrued payroll balance by \$91,000.

6. Effect

Users of financial statements are not viewing accurate and timely information.

7. Cause

Organization did not properly accrue per supporting schedules.

8. Recommendation

Management should implement procedures to record and review accrual information.

9. Management's response

Management agrees with the recommendation.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2011**

SECTION II - FINANCIAL STATEMENT FINDINGS

1. FINDING NUMBER: 2011-2 **2. THIS FINDING IS:** New Repeat from Prior Year?
Year originally reported _____

3. Criteria or specific requirement

Annual audits must be completed and submitted to the Indiana Finance Authority and Trustee within 180 days after the end of such fiscal year.

4. Condition

The completion of the audit was delayed because supporting schedules were not completed and provided on a timely basis.

5. Context

None

6. Effect

Potential downgrade of bond rating.

7. Cause

School did not have records available to perform the audit on a timely basis.

8. Recommendation

Formal procedures should be established to monitor filing requirements and reporting deadlines.

9. Management's response

Management agrees with the recommendation.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2011

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. FINDING NUMBER: 2011-4 **2. THIS FINDING IS:** New Repeat from Prior year?
Year originally reported? 2010

3. Federal Program Name and Year: Title I - Low Income

4. Project No.: FY 10/11 **5. CFDA No.:** 84.010

6. Passed Through: Indiana Department of Education

7. Federal Agency: U.S. Department of Education

8. Criteria or specific requirement (including statutory, regulatory, or other citation)
Employee overpaid.

9. Condition
Employee overpaid for year.

10. Questioned Costs
\$1,123

11. Context
Auditor discovered payroll system had a pay rate of \$49,123 per year entered for an employee who had a contract of \$48,000 per year.

12. Effect
Misappropriation of funds.

13. Cause
Payroll system had wrong pay rate entered for an employee at beginning of the year.

14. Recommendation
Pay rates should have a secondary review and approval at the beginning of the year.

15. Management's response
Management agrees with the recommendation.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDING JUNE 30, 2011**

<u>Finding Number</u>	<u>Condition</u>	<u>Current Status</u>
2010-1	Organization did not properly accrue revenues and expenses at year end.	Unresolved. Repeated as 2011-1
2010-2	Current year audit significantly delayed.	Unresolved. Repeated as 2011-2
2010-3	Several teaching positions did not have evidence of current licenses or certifications.	Resolved
2010-4	Employee overpaid.	Repeated as 2011-4

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
YEAR ENDING JUNE 30, 2011**

Corrective Action Plan

Finding No.: 2011-1

Condition:

Organization did not properly accrue payroll and payroll taxes at June 30, 2011.

Plan:

Organization will record all accrual amounts at year end.

Anticipated Date of Completion: 6/30/2012

Name of Contact Person: Aaron Hull, Director of Finance

Management Response: Management will implement the described plan.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
YEAR ENDING JUNE 30, 2011**

Corrective Action Plan

Finding No.: 2011-2

Condition:

Current year audit significantly delayed.

Plan:

Filing deadlines have been reviewed; all future audits will be completed in a timely manner.

Anticipated Date of Completion: Audit will be completed by due date.

Name of Contact Person: Aaron Hull, Director of Finance

Management Response: Management will implement the described plan.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
YEAR ENDING JUNE 30, 2011**

Corrective Action Plan

Finding No.: 2011-3

Condition:

Current year audit significantly delayed.

Plan:

Filing deadlines have been reviewed; all future audits will be completed in a timely manner.

Anticipated Date of Completion: Audit will be completed by due date.

Name of Contact Person: Aaron Hull, Director of Finance

Management Response: Management will implement the described plan.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
YEAR ENDING JUNE 30, 2011**

Corrective Action Plan

Finding No.: 2011-4

Condition:

Employee overpaid for the year.

Plan:

Pay rate input procedure is performed after approval by Human Resource department. Process will be revised to include a management review after input. The identified error is considered an isolated incident of the input process.

Anticipated Date of Completion: Has been implemented and is currently being done.

Name of Contact Person: Aaron Hull, Director of Finance

Management Response: Management will implement the described plan.