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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, 2011 to June 30, 2012. 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titles listed in the Catalog of Federal Domestic Assistance; the Schedule of Findings and Questioned Costs contained outdated language from Statements on Auditing Standards 112; and the Summary Schedule of Prior Audit Findings should have been completed by the Charter School. 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, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report. Page 27 contains one current audit finding. Page 31 contains the status of four prior audit findings. Management's response is on page 29.

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, 2012**

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Governing Board	1
FINANCIAL SECTION	
Independent Auditor's Report	2 - 3
Statement of Financial Position	4 - 5
Statement of Activities	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 13
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress - Public Employees' Retirement Fund	14
SUPPLEMENTARY INFORMATION	
Combining Statement of Financial Position	15 - 16
Combining Statement of Activities	17
Schedule of Expenses	18
SINGLE AUDIT SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20
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	21 - 22
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
Schedule of Findings and Questioned Costs	25 - 29

INTRODUCTORY SECTION

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
GOVERNING BOARD
JUNE 30, 2012**

Dr. Rose Marie Banks, President

Ben Clement, Vice President

Delores Rice, 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, 2012, 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, 2012, 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 March 25, 2013, 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 14 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 auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Meubachy, Pauritsch, Salvador & Co., Ltd.

STATEMENT OF FINANCIAL POSITION

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

Current assets:		
Cash	\$ 2,829,867	
Cash - restricted for debt service	172,500	
Receivables:		
Accounts	4,743,300	
Accrued interest	459	
Grants	476,014	
Certificate of deposit	524,038	
Prepaid expenses	<u>208,458</u>	
Total current assets		\$ 8,954,636
Property and equipment:		
Land	859,886	
Structures and improvements	16,842,714	
Equipment	2,416,052	
Furniture and fixtures	778,775	
Less accumulated depreciation	<u>(3,618,042)</u>	
Net property and equipment		17,279,385
Other assets:		
Cash - restricted for debt service	1,505,075	
Debt issuance costs, net	<u>785,198</u>	
Total other assets		<u>2,290,273</u>
Total assets		<u>\$ 28,524,294</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 229,375	
Accrued expenses	1,523,936	
Management fees payable	38,081	
Deferred grant revenue	1,658	
Current portion of long-term debt	<u>239,285</u>	
Total current liabilities		\$ 2,032,335
Long-term liabilities:		
Long-term debt, less current portion	23,219,376	
Accrued expenses	<u>565,710</u>	
Total long-term liabilities		<u>23,785,086</u>
Total liabilities		25,817,421
Net assets:		
Unrestricted		<u>2,706,873</u>
Total liabilities and net assets		<u>\$ 28,524,294</u>

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Revenues and support:		
Grants:		
State	\$	9,718,088
Federal		3,011,091
Fees		286,730
Interest income		5,578
Contributions		2,012
Other		<u>19,097</u>
Total revenues and support	\$	13,042,596
Expenses:		
Program services		12,442,450
Supporting services:		
Management and general		<u>2,734,415</u>
Total expenses		<u>15,176,865</u>
Change in net assets		(2,134,269)
Net assets at beginning of year		<u>4,841,142</u>
Net assets at end of year	\$	<u><u>2,706,873</u></u>

See notes to financial statements.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:	
Change in net assets	\$ (2,134,269)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization	28,579
Depreciation	933,142
Effects of changes in operating assets and liabilities:	
Receivables	1,225,598
Prepaid expenses	79,943
Accounts payable and accrued expenses	361,014
Management fees payable	(26,118)
Deferred grant revenue	<u>(28,162)</u>
Net cash provided by operating activities	\$ 439,727
Cash flows from investing activities:	
Purchase of certificate of deposit	(2,070)
Purchases of property and equipment	<u>(284,137)</u>
Net cash used by investing activities	(286,207)
Cash flows from financing activities:	
Increase in cash - restricted for debt service	(172,500)
Proceeds from long-term debt	14,022
Principal repayments of long-term debt	<u>(2,399)</u>
Net cash used by financing activities	<u>(160,877)</u>
Net decrease in cash	(7,357)
Cash at beginning of year	<u>2,837,224</u>
Cash at end of year	<u>\$ 2,829,867</u>

See notes to financial statements.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

The Drexel Foundation for Educational Excellence, Inc. (Foundation) is a nonprofit corporation established to operate an Indiana charter school located in Gary, Indiana and serves grades kindergarten through high school. The 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.

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 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. Receivables

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 receivables balances, adverse situations that may affect the payor's ability to pay, and current economic conditions. Receivables 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, 2012.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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. 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.

I. 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.

J. Date of Management's Review

Management has evaluated subsequent events through March 25, 2013, which is the date the financial statements were available to be issued.

NOTE 2. DEBT ISSUANCE COSTS

Debt issuance costs as of June 30, 2012 are summarized as follows:

Cost	\$	857,349
Less accumulated amortization		<u>(72,151)</u>
Net	\$	<u>785,198</u>

Amortization expense for the year ended June 30, 2012 was \$28,579.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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

2013	\$	28,578
2014		28,578
2015		28,578
2016		28,578
2017		28,578
Thereafter		<u>642,308</u>
Total	\$	<u>785,198</u>

NOTE 3. LONG-TERM DEBT

Indiana Finance Authority Educational Facilities Revenue Bonds, Series 2009 that are collateralized by the structures and improvements. The loan principal will be paid in annual principal installments that vary between \$230,000 and \$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. \$ 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. 3,267,042

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 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 \$1,061, non-interest bearing, with the final payment due in May, 2014. The note is collateralized by specific equipment. 16,154

Total	23,458,661
Less current portion	<u>(239,285)</u>
Long-term portion	<u>\$ 23,219,376</u>

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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.

2013	\$	239,285
2014		492,750
2015		500,881
2016		515,881
2017		535,881
Thereafter		<u>21,173,983</u>
Total	\$	<u>23,458,661</u>

Interest expense for the year ended June 30, 2012 was \$1,462,868.

The Indiana Finance Authority Educational Facilities Revenue Bonds contain certain restrictive covenants that were not met during the year.

NOTE 4. LEASING ARRANGEMENT

The Foundation conducts its elementary school operations from facilities that are leased under a noncancelable lease that expired in June, 2012. Facility rent payments were based on per student usage at a current annual rate of \$379.79 per student. Rent expense under this lease for the year ended June 30, 2012 was \$277,052.

Subsequent to year-end, the Foundation and the lessor entered into a lease under which the minimum annual rental payment will be \$115,000, increased by three percent each year through June, 2017. The minimum annual rental payment is based on 300 students. There shall be an additional monthly charge for each student in excess of 300.

Future minimum rental payments required under this lease in years ending June 30 are as follows:

2013	\$	115,000
2014		118,450
2015		122,044
2016		125,664
2017		<u>129,434</u>
Total	\$	<u>610,592</u>

NOTE 5. CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2012 was \$1,278,691.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 6. EMPLOYEE RETIREMENT PLANS

A. Indiana Public Employees' Retirement Fund

Plan Description

The Foundation elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. The Foundation contributes to INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under Internal Revenue Code Section 401 (a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all Foundation employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earnings within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

Participants have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

Funding Policy

The Foundation contributes the participant's required contribution of 3% of their annual salary to an annuity savings account that may be withdrawn at any time with interest should a participant terminate employment. The Foundation is required by State statute to contribute at an actuarially determined rate. The current rate is 7.0% of annual covered payroll. The contribution requirements of participants are determined by State statute.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Annual Pension Cost

For the 2011 plan year, the Foundation's annual contribution of \$218,819 was more than the required contribution of \$150,685. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2011 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.0% per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual post retirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

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.

NOTE 8. MANAGEMENT AND CHARTER AGREEMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight and responsibilities. Under this charter, the Foundation has agreed to pay Ball State University an annual administrative fee equal to 3% of State tuition support. During the year ended June 30, 2012, the Foundation paid Ball State University \$275,893. The charter agreement with Ball State University expires June 30, 2016.

The Foundation has a management agreement with American Quality Schools Corporation (AQSC). Under the management agreement, AQSC charges 7% of specific State of Indiana grants in order to organize, operate and manage Thea Bowman Leadership Academy. During the year ended June 30, 2012, the Foundation paid AQSC \$643,762. The Foundation's board retains final authority and responsibility for financial and budgetary commitments. The agreement with AQSC expires June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FUNDING PROGRESS -
PUBLIC EMPLOYEES' RETIREMENT FUND
JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability - (AAL)	Over- funded (Unfunded) AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
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

Information presented above is the most current information available.

SUPPLEMENTARY INFORMATION

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS	<u>Drexel Foundation</u>	<u>Thea Bowman</u>	<u>Total</u>
Current assets:			
Cash	\$ 10,316	\$ 2,819,551	\$ 2,829,867
Cash - restricted for debt service	-	172,500	172,500
Receivables:			
Accounts	-	4,743,300	4,743,300
Accrued interest	-	459	459
Grants	-	476,014	476,014
Certificate of deposit	-	524,038	524,038
Prepaid expenses	-	208,458	208,458
Total current assets	<u>10,316</u>	<u>8,944,320</u>	<u>8,954,636</u>
Property and equipment:			
Land	-	859,886	859,886
Structures and improvements	-	16,842,714	16,842,714
Equipment	-	2,416,052	2,416,052
Furniture and fixtures	-	778,775	778,775
Less accumulated depreciation	-	<u>(3,618,042)</u>	<u>(3,618,042)</u>
Net property and equipment	<u>-</u>	<u>17,279,385</u>	<u>17,279,385</u>
Other assets:			
Cash - restricted for debt service	-	1,505,075	1,505,075
Debt issuance costs, net	-	<u>785,198</u>	<u>785,198</u>
Total other assets	<u>-</u>	<u>2,290,273</u>	<u>2,290,273</u>
Total assets	<u>\$ 10,316</u>	<u>\$ 28,513,978</u>	<u>\$ 28,524,294</u>

	<u>Drexel Foundation</u>	<u>Thea Bowman</u>	<u>Total</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 3,937	\$ 225,438	\$ 229,375
Accrued expenses	-	1,523,936	1,523,936
Management fees payable	-	38,081	38,081
Deferred grant revenue	-	1,658	1,658
Current portion of long-term debt	<u>-</u>	<u>239,285</u>	<u>239,285</u>
Total current liabilities	<u>3,937</u>	<u>2,028,398</u>	<u>2,032,335</u>
Long-term liabilities:			
Long-term debt, less current portion	-	23,219,376	23,219,376
Accrued expenses	<u>-</u>	<u>565,710</u>	<u>565,710</u>
Total long-term liabilities	<u>-</u>	<u>23,785,086</u>	<u>23,785,086</u>
Total liabilities	3,937	25,813,484	25,817,421
Net assets:			
Unrestricted	<u>6,379</u>	<u>2,700,494</u>	<u>2,706,873</u>
Total liabilities and net assets	<u>\$ 10,316</u>	<u>\$ 28,513,978</u>	<u>\$ 28,524,294</u>

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	<u>Drexel Foundation</u>	<u>Thea Bowman</u>	<u>Total</u>
Revenues and support:			
Grants:			
State	\$ -	\$ 9,718,088	\$ 9,718,088
Federal	-	3,011,091	3,011,091
Fees	-	286,730	286,730
Interest income	5	5,573	5,578
Contributions	1,750	262	2,012
Other	<u>1,961</u>	<u>17,136</u>	<u>19,097</u>
Total revenues and support	<u>3,716</u>	<u>13,038,880</u>	<u>13,042,596</u>
Expenses:			
Program services	-	12,442,450	12,442,450
Supporting services:			
Management and general	<u>6,051</u>	<u>2,728,364</u>	<u>2,734,415</u>
Total expenses	<u>6,051</u>	<u>15,170,814</u>	<u>15,176,865</u>
Change in net assets	(2,335)	(2,131,934)	(2,134,269)
Net assets at beginning of year	<u>8,714</u>	<u>4,832,428</u>	<u>4,841,142</u>
Net assets at end of year	<u>\$ 6,379</u>	<u>\$ 2,700,494</u>	<u>\$ 2,706,873</u>

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF EXPENSES
YEAR ENDED JUNE 30, 2012

Salaries	\$ 6,929,885
Amortization	28,579
Benefits	1,022,861
Books and supplies	732,999
Depreciation	933,142
Education	375,086
Food service expense	672,037
Insurance	713,433
Interest	1,462,868
Management fees	944,491
Miscellaneous	26,747
Office expense	211,308
Professional fees	183,142
Rent	277,699
Repairs and maintenance	<u>662,588</u>
Total expenses	<u>\$ 15,176,865</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, 2012, and have issued our report thereon dated March 25, 2013. 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

Management of Drexel Foundation for Educational Excellence, Inc. is responsible for establishing and maintaining effective 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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*.

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.

Merlesky, Pauritsch, Salvador & Co., Ltd.

Orland Park, Illinois
March 25, 2013

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, 2012. 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.

In our opinion, 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, 2012.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

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

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.

Mulvaney, Pauritsch, Salvador & Co., Ltd.

Orland Park, Illinois
March 25, 2013

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

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 10/11	\$ 255,845
Title I - Low Income (M)	84.010	FY 11/12	862,625
ARRA - Title I - Low Income (M)	84.389	FY 09/10	48,940
Title II - Teacher Quality	84.281	FY 09/11	12,584
Title II - Teacher Quality	84.281	FY 10/12	62,465
Title II - Teacher Quality	84.281	FY 11/13	2,835
I.D.E.A. Flow Through	84.027	FY 10/11	23,037
I.D.E.A. Flow Through	84.027	FY 11/12	179,592
ARRA - I.D.E.A. Flow Through	84.391	FY 09/10	11,198
Charter School Facilities Grant	84.282	FY 11/12	497,416
ARRA - Educational Jobs Funds (M)	84.410	FY 11/12	<u>275,928</u>
Total expenditures of federal awards			<u>\$ 2,232,465</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, 2012**

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, 2012**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: UNQUALIFIED

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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 OMB Circular A-133? yes 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
84.410	ARRA - Educational Jobs Funds

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

Auditee qualified as low-risk auditee? yes no

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

1. FINDING NUMBER: NONE 2. THIS FINDING IS: New Repeat from Prior Year?
Year originally reported

3. Criteria or specific requirement

4. Condition

5. Context

6. Effect

7. Cause

8. Recommendation

9. Management's response

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. FINDING NUMBER: 2012-1 **2. THIS FINDING IS:** New Repeat from Prior year?
Year originally reported? _____

3. Federal Program Name and Year: Title I - Low Income FY 10/11 & ARRA - Title I - Low Income FY 09/10

4. Project No.: 11-9460 & ARRA 11-9460 **5. CFDA No.:** 84.01 & 84.389

6. Passed Through: Indiana Department of Education (INDOE)

7. Federal Agency: U.S Department of Education

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

Expenditures should be reported in year incurred.

9. Condition

Expenditures were not reported on appropriate Schedule of Expenditures of Federal Awards (SEFA).

10. Questioned Costs

None

11. Context

Program costs of \$64,690 were not reported on the 2011 SEFA and were placed on the 2012 SEFA.

12. Effect

The 2012 SEFA includes costs from a previous year.

13. Cause

Organization's system for Federal program costing is a method utilizing significant allocation journal entries. Ability to submit accurate and timely reports is hampered by use of allocations. Also, reconciling reports to General Ledger detail was not done in a timely fashion.

14. Recommendation

Costs should be charged to programs at time of original general ledger entry and not done via journal entry allocations. Additionally, reconciliation should be performed with the General Ledger accounts before INDOE Form 9 reports are submitted.

15. Management's response

Management agrees with the recommendations and has taken action to rectify the issues identified.

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDING JUNE 30, 2012**

<u>Finding Number</u>	<u>Condition</u>	<u>Current Status</u>
2011-1	Organization did not properly accrue payroll and payroll taxes at year end.	Resolved
2011-2	The completion of the audit was delayed because supporting schedules were not completed and provided on a timely basis.	Resolved
2011-3	Audit was not completed in time for filing.	Resolved
2010-4	Employee overpaid for year.	Resolved

**DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
YEAR ENDING JUNE 30, 2012**

Corrective Action Plan

Finding No.: 2012-1

Condition:

Expenditures were not reported on appropriate SEFA.

Plan:

Responsibility for grant recording and reporting has been assigned to an experienced senior accountant. Additionally, an accounting assistant will be hired to work with the senior accountant to ensure accounts are properly maintained and reconciled.

Anticipated Date of Completion: December 2012.

Name of Contact Person: Tom Aubin, Vice President - Finance

Management Response:

Due to staff turnover in 2012, the accounting was handled by several different individuals. This resulted in costs being improperly coded and reconciliations with the General Ledger not being performed prior to submission of the INDOE Form 9 report. As per the plan described above, the accounting is now being handled by a more experienced senior accountant who will have the support of an accounting assistant to ensure the recording of transactions in the proper accounts and the timely reconciliation of accounts prior to INDOE Form 9 preparation.