



STATE OF INDIANA
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March 28, 2014

Charter School Board
21st Century Charter School, Inc. d/b/a
Fall Creek Academy
2540 N. Capitol Avenue
Indianapolis, IN 46208

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. However, we believe that on the Schedule of Findings and Questioned Costs the question stating, "Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133" should have been marked "Yes" per our interpretation of Circular A-133 guidelines. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the 21st Century Charter School, Inc. d/b/a Fall Creek Academy, as of June 30, 2013, 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. Pages 24 and 25 contain one current audit finding. Management's response is in Attachment A.

In addition to the report presented herein, a Supplemental Audit Report for 21st Century Charter School, Inc. d/b/a Fall Creek Academy was prepared in accordance with the guidelines established by the State Board of Accounts.

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

State Board of Accounts

21ST CENTURY CHARTER SCHOOL, INC.

d/b/a

FALL CREEK ACADEMY

Financial Statements and Federal Single Audit Report

June 30, 2013 and 2012

21st CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
21st Century Charter School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **21st Century Charter School, Inc. d/b/a Fall Creek Academy**, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Charter School, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 on our consideration of 21st Century Charter School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 21st Century Charter School, Inc.'s internal control over financial reporting and compliance.



Indianapolis, IN
December 31, 2013

21st CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Statements of Financial Position

	June 30	
Assets	2013	2012
Current assets:		
Cash	\$ 216,463	3,538
Accounts receivable:		
State education support	-	1,255,799
Grants	53,716	73,020
Other	1,596	17,936
Prepaid expense	30,172	5,600
Total current assets	301,947	1,355,893
Property and equipment:		
Leasehold improvements	426,948	236,118
Textbooks	34,905	-
Furniture and equipment	1,554,954	1,428,509
Less: accumulated depreciation	(1,522,570)	(1,218,734)
Property and equipment, net	494,237	445,893
	\$ 796,184	1,801,786
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 234,147	200,265
Due to GEO Foundation	-	1,478,063
Notes payable	-	35,000
Current portion of long-term debt	150,236	1,736
Refundable advances	21,625	23,564
Total current liabilities	406,008	1,738,628
Accrued interest on Common School Fund loans	-	55,071
Long-term debt	10,707	396,627
Total liabilities	416,715	2,190,326
Unrestricted net assets (deficiency)	379,469	(388,540)
	\$ 796,184	1,801,786

See accompanying notes to financial statements.

21st CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Statements of Activities

	<u>Year Ended June 30</u>	
	<u>2013</u>	<u>2012</u>
<u>Revenue, Gains and Support</u>		
State education support	\$ 3,353,618	2,511,597
Grant revenue	733,614	1,209,831
Student and adult fees	12,438	9,665
Other income	36,970	47,879
	<u>4,136,640</u>	<u>3,778,972</u>
<u>Expenses</u>		
Program services:		
Educational instruction	2,594,262	2,839,351
Education support	699,391	531,676
Administrative	770,478	614,091
Total expenses	<u>4,064,131</u>	<u>3,985,118</u>
Change in net assets before non-operating items	72,509	(206,146)
<u>Non-Operating Revenue and Expense</u>		
Forgiveness of obligation to GEO Foundation	1,478,063	-
Loss due to changes in legislative funding	<u>(782,563)</u>	<u>-</u>
Change in net assets	768,009	(206,146)
Net assets (deficiency), beginning of year	<u>(388,540)</u>	<u>(182,394)</u>
Net assets (deficiency), end of year	<u>\$ 379,469</u>	<u>(388,540)</u>

See accompanying notes to financial statements.

21st CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Statements of Cash Flows

	Year Ended June 30	
	2013	2012
Operating Activities		
Change in net assets	\$ 768,009	(206,148)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	303,836	168,377
Forgiveness of obligation to GEO Foundation	(1,478,063)	-
Loss due to changes in legislative funding	782,563	-
Change in:		
Accounts receivable	(385,314)	158,417
Prepaid expense	(24,572)	9,232
Accounts payable and accrued expenses	59,310	2,037
Refundable advances	(1,939)	(1,709)
Net cash provided by operating activities	23,830	130,206
Investing Activities		
Purchases of property and equipment	(352,180)	(114,532)
Net cash used by investing activities	(352,180)	(114,532)
Financing Activities		
Net repayments of short-term notes payable	(35,000)	(80,440)
Proceeds from Common School Fund loan	419,094	-
Proceeds from long-term debt obligations	329,900	-
Principal repayments of long-term debt obligations	(172,719)	(1,446)
Net cash provided (used) by financing activities	541,275	(81,886)
Net increase (decrease) in cash	212,925	(66,212)
Cash, beginning of year	3,538	69,750
Cash, end of year	\$ 216,463	3,538
Supplemental disclosures:		
Cash paid for interest expense	\$ 8,325	-
Non-cash investing and financing activities:		
Assets acquired in exchange for debt obligation	\$ -	5,208

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

21st Century Charter School, Inc. d/b/a Fall Creek Academy (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University.

Accounting Estimates

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

Revenue Recognition

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

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

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Accounts Receivable

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

Taxes on Income

21st Century Charter School, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2013 and 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2012, 2011, and 2010 are open to audit for both federal and state purposes.

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred.

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

Leasehold improvements.....	3 years
Textbooks	4 years
Furniture and equipment	3 to 5 years

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through December 31, 2013, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

Reclassifications

Certain figures for 2012 that were previously reported have been reclassified for comparative purposes.

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(2) Legislative Funding Changes, Continued

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a loss due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$ 813,747
Repayment of accrued interest on Common School Fund loans.....	<u>80,499</u>
	894,246
Elimination of School funding	<u>(1,676,809)</u>
	\$ <u>(782,563)</u>

(3) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represented amounts due relating to the following sources:

Tuition support	\$1,177,649
Special education grant	75,680
Prime time grant	1,570
Honors grant	<u>900</u>
Total.....	\$ <u>1,255,799</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law with tuition support payable in equal monthly installments in the calendar year following the start of the academic school year. Effective July 1, 2013, tuition support will be paid in monthly installments that coincide with the School's fiscal year (see Note 2).

21ST CENTURY CHARTER SCHOOL, INC.

d/b/a

FALL CREEK ACADEMY

Notes to Financial Statements

(4) Debt Forgiveness

The School terminated its management agreement with The Greater Educational Opportunities Foundation, Inc. (“GEO”) effective June 30, 2012. As of June 30, 2012, the School owed GEO \$1,478,063 for building rental and services rendered under the management agreement. On July 26, 2012, GEO provided notice that it had forgiven this obligation by action of its Board of Directors in exchange for the School’s commitment to purchase the school facility. The School simultaneously arranged for the purchase of the facility by Ivy Tech Foundation, Inc., and executed a two-year lease agreement with Ivy Tech Foundation, Inc. on the same facility (see Note 7). The effect of the debt forgiveness has been reflected in the accompanying statement of activities for the year ended June 30, 2013 as non-operating revenue.

(5) Notes Payable

The School had an agreement with its former management company, The Greater Educational Opportunity Foundation, Inc., that provided for short-term loans if at the close of the month the debts owed by the School exceeded the monthly funds deposited into the School’s account. These unsecured, non-interest bearing loans were due within 60 days of issue. The balance outstanding of \$35,000 as of June 30, 2012 was repaid in 2013.

(6) Long-Term Debt

Long-term debt at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Notes payable to Indiana Common School Fund.....	\$ -	394,601
Note payable to Aramark Educational Service, LLC.....	2,026	3,762
Note payable to The National Bank of Indianapolis	135,417	-
Note payable to Greater Education Opportunities Foundation Holdings Indiana, LLC.....	<u>23,500</u>	<u>-</u>
	160,943	398,363
Less current maturities	<u>(150,236)</u>	<u>(1,736)</u>
	\$ <u>10,707</u>	\$ <u>396,627</u>

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(6) Long-Term Debt, Continued

The notes payable to the Indiana Common School Fund were comprised of multiple notes, each of which required semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. In 2013 and 2012, the loans were under a moratorium on loan payments, but interest continued to accrue. In 2013, the outstanding balance of the loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

The School entered into an installment agreement with Aramark Educational Services, LLC relating to the purchase of kitchen equipment. The agreement is non-interest bearing and provides for monthly installments of \$145 through August 2015.

The School entered into an installment agreement with Greater Education Opportunities Foundation Holdings Indiana, LLC relating to the purchase of a modular building. The agreement is non-interest bearing, provides for monthly installments of \$4,700 through November 2013, and is secured by the related assets.

The note payable to The National Bank of Indianapolis is payable in monthly installments of \$10,417. The note carries a variable interest rate equal to the lender's prime rate, but not less than 3.75% per annum. The loan is secured by all business assets and guaranteed by certain members of the Board of Directors.

Principal maturities under the loan agreements are as follows:

<u>Year Ending June 30:</u>	
2014	\$150,236
2015	<u>10,707</u>
	<u>\$160,943</u>

(7) Leases

The School leases its school facility as well as certain items of office equipment under operating leases for terms from one to seven years. Expense under operating leases for the years ended June 30, 2013 and 2012 was \$186,118 and \$158,452, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year consist of \$102,000 payable in the year ending June 30, 2014.

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(8) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2013 and 2012, the School had refundable grant advances in excess of expenditures of \$21,625 and \$23,564, respectively.

(9) Retirement Plans

Retirement benefits for school employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. For the years ended June 30, 2013 and 2012, the School contributed 7.5% of compensation for teaching faculty to TRF. The contribution to PERF for other employees was 6.5% of compensation until December 31, 2012, and 8.0% thereafter. Substantially all full-time employees are eligible to participate. Retirement plan expense for the years ended June 30, 2013 and 2012 was \$134,824 and \$114,357, respectively.

(10) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Expense under this charter agreement for the years ended June 30, 2013 and 2012 were \$46,644 and \$70,659, respectively. The charter remains in effect until June 30, 2015, and is renewable thereafter by mutual consent.

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(11) Risks and Uncertainties

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

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

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2013 and 2012, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits maintained at The National Bank of Indianapolis occasionally exceed the FDIC insurance limit.

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(12) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the years ended June 30, 2013 and 2012:

	<u>2013</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$1,459,140	53,475	343,823
Employee benefits	389,542	11,947	81,602
Staff development and recruitment	14,926	-	-
Professional services	92,118	111,194	116,052
Authorizer oversight fee	-	-	46,644
Academic services	-	-	92,321
Transportation	-	98,450	-
Food costs.....	-	229,472	-
Equipment rental	-	17,820	-
Repairs and maintenance.....	-	30,649	-
Classroom, kitchen and office supplies.....	93,735	16,227	28,402
Occupancy	240,965	57,832	-
Depreciation	303,836	-	-
Interest	-	-	33,805
Insurance	-	730	15,594
Other	-	<u>71,595</u>	<u>12,235</u>
	<u>\$2,594,262</u>	<u>699,391</u>	<u>770,478</u>

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to Financial Statements

(12) Functional Expense Reporting, Continued

	<u>2012</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$1,486,485	-	40,030
Employee benefits	430,255	-	10,178
Staff development and recruitment	1,075	-	-
Professional services	179,907	70,049	51,331
Authorizer oversight fee.....	-	-	70,659
Academic services.....	-	-	356,297
Transportation	-	120,255	-
Food costs.....	-	166,533	-
Equipment rental	-	33,757	-
Repairs and maintenance.....	-	46,229	-
Classroom, kitchen and office supplies.....	146,038	9,630	43,130
Occupancy	416,906	66,584	-
Depreciation	168,377	-	-
Interest	-	-	15,786
Insurance	-	-	14,072
Other	<u>10,308</u>	<u>18,639</u>	<u>12,608</u>
	<u>\$2,839,351</u>	<u>531,676</u>	<u>614,091</u>

21st CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 166,717
National School Lunch Program	10.555		55,327
Total for cluster			<u>222,044</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	12-9370 13-9370	234,522
Special Education Cluster			
Special Education - Grants to States	84.027		67,779
Improving Teacher Quality State Grants	84.367		31,307
Education Jobs Fund	84.410		1,499
Total for federal grantor agency			<u>335,107</u>
Total federal awards expended			<u>\$ 557,151</u>

See accompanying Independent Auditor's Report.
See accompanying notes to this schedule.

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of 21st Century Charter School, Inc. d/b/a Fall Creek Academy (the “School”) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

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

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

The Board of Directors
21st Century Charter School, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **21st Century Charter School, Inc. d/b/a Fall Creek Academy** (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Indianapolis, IN
December 31, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

**The Board of Directors
21st Century Charter School, Inc.**

Report on Compliance for Each Major Federal Program

We have audited **21st Century Charter School, Inc. d/b/a Fall Creek Academy's** (the "School") 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 the School's major federal programs for the year ended June 30, 2013. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, 21st Century Charter School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to this matter.

21st Century Charter School, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. 21st Century Charter School, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of 21st Century Charter School, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Indianapolis, IN
December 31, 2013

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Type of auditors' report issued on compliance for major programs:	Modified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	No

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster: Grants to Local Educational Agencies
84.027	Special Education Cluster: Special Education – Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee:	No

II. Financial Statement Findings

No matters are reportable.

III. Federal Award Findings and Questioned Costs

FINDING NO. 2013-1 EMPLOYEE TIME RECORDS

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Title I, Part A Cluster: Grants to Local Educational Agencies
CFDA Number:	84.010
Award Year:	FY 2012-13

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

Condition

The School did not create or maintain semi-annual certifications or other time and attendance records to support payroll charges to the Title I program.

Criteria

OMB Circular A-87, Attachment B, paragraph 8.h.(3) requires that where “employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

Cause

The School had not established procedures to obtain and compile employee data for personnel devoted to Title I activities.

Effect

The failure to maintain employee time records could result in funds being inappropriately charged to grant programs.

Context

Due to the lack of documentation, it was not possible to determine if salaries were properly allocated to the Title I program.

\$ -0-

Recommendation

We recommend that the School implement a process for obtaining and retaining certifications, or other documentation, of time spent by employees on Title I program activities.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

21ST CENTURY CHARTER SCHOOL, INC.
d/b/a
FALL CREEK ACADEMY

Other Reports

Year Ended June 30, 2013

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

Supplemental Audit Report of 21st Century Charter School, Inc.
d/b/a Fall Creek Academy

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

21ST CENTURY CHARTER SCHOOL, INC.

d/b/a

FALL CREEK ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

III. Federal Award Findings and Questioned Costs

AUDIT RESPONSE

FINDING NO. 2013-1 EMPLOYEE TIME RECORDS

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Title I, Part A Cluster; Grants to Local Educational Agencies
CFDA Number: 84.010
Award Year: FY 2012-13

Views of Responsible Officials and Planned Corrective Action

FCA will implement a system through which each employee compensated completely or partially with Title I funds will complete, sign and submit to our Business Manager a time and effort log.