



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B43496

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May 14, 2014

Charter School Board
The Signature School, Inc.
610 Main Street
Evansville, IN 47708

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Kemper CPA Group, LLP, 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. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of The Signature School, Inc., 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.

In addition to the report presented herein, a Supplemental Audit Report for The Signature School, Inc. 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

THE SIGNATURE SCHOOL, INC.

**FINANCIAL STATEMENT
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2013

(With Independent Auditor's Report Thereon)



THE SIGNATURE SCHOOL, INC.

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1 – 2
Financial Statement:	
Statement of Cash Receipts and Disbursements	3
Notes to Financial Statement	4 – 8
Supplementary Information	9
Independent Auditor's Report on Supplementary Information	10
Supplementary Information	
Schedule of Receivables	
Schedule of Capital Assets	
Schedule of Accounts Payable	
Schedule of Debt	11
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 <i>Government Auditing Standards</i>	12 – 13
Schedule of Findings and Responses	14
Other Report	15



INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Signature School, Inc.

Report on the Financial Statements

We have audited the accompanying statement of cash receipts and disbursements of Signature School, Inc. (a nonprofit organization), for the year ended June 30, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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 the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Guidelines for the Audits of Charter Schools Performed by Private Examiners* as issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of cash receipts and disbursements is 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 auditors' judgment, including the assessment of the risks of material misstatement of the statement of cash receipts and disbursements, 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.

Board of Directors
The Signature School, Inc.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of Signature School, Inc. for the year ended June 30, 2013 in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014, on our consideration of The Signature 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 The Signature School, Inc.'s internal control over financial reporting and compliance.

Kemper CPA Group, LLP

Evansville, Indiana
April 10, 2014

Certified Public Accountants and Consultants

THE SIGNATURE SCHOOL, INC.
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2013

Cash receipts:	
State basic grant	\$ 1,801,813
Other state support	28,719
Federal grant revenue	151,548
Student fees	148,357
Contributions	294,699
Textbook rental and sale	49,741
Extra curricular activities fees	121,854
Other income	161
	<hr/>
Total cash receipts	2,596,892
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Cash disbursements:	
Salaries and wages	1,318,186
Payroll taxes	105,516
Employee benefits	375,565
Training and professional development	13,871
Professional fees	143,991
Repairs and maintenance	15,233
Supplies	151,814
Insurance	379
Internet and telephone	25,618
Postage and printing	2,316
Travel	16,559
Food purchases	452
Fundraising expense	2,284
Books and periodicals	31,947
Other expenses	100
Extra curricular expenses	109,805
Rent of building and equipment	196,839
Building and equipment expense	18,924
Dues and fees	12,880
Bank service charges	3,219
	<hr/>
Total cash disbursements	2,545,498
	<hr/>
Increase in cash	51,394
Cash, beginning of year	117,695
	<hr/>
Cash, end of year	\$ 169,089
	<hr/> <hr/>

THE SIGNATURE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013

Note 1 – Organization and Summary of Significant Accounting Policies

A. Organization

The Signature School, Inc. (School) is a not-for-profit organization that provides secondary education for adolescent children in grades nine through twelve. The School is incorporated under the laws of the State of Indiana and is a public charter school sponsored by the Evansville-Vanderburgh School Corporation, which granted a charter to the School under Indiana Code 20-24-3-1.

B. Basis of Accounting

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, the only asset recognized is cash, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements, and noncash transactions are not recognized. The cash receipts and disbursements basis differs from generally accepted accounting principles primarily because the effects of revenue earned but not collected and expenses incurred but not paid at the date of the financial statement are not included in the financial statement.

C. Cash

The School maintains its cash balance in a checking account at a local financial institution. These balances are insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2013, there were no amounts of cash in excess of FDIC insurance coverage.

D. Receipts

Receipts come primarily from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to funding received by public schools in the same geographic area. This state basic grant from the State of Indiana is based on enrollment, and is paid in equal monthly installments, which are recognized as revenue when received.

The School also receives revenue related to cost reimbursements grants, which is also recognized as revenue when reimbursements are received.

Note 2 – Subsequent Events

The School has evaluated subsequent events through April 10, 2014, the date the financial statement was available to be issued.

THE SIGNATURE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013

Note 3 – Income Taxes

The School is exempt from income taxes as a nonprofit corporation under Section 501(c)3 of the Internal Revenue Code, except on net income derived from unrelated business activities. The School believes that it has support for any tax positions that are material to the financial statement.

With a few exceptions, the School is no longer subject to U.S. federal and state examinations by tax authorities for years before 2010.

Note 4 – Defined Benefit Retirement Plans

A. Teachers' Retirement Fund

Plan Description: Certified employees participate in the Indiana Teachers' Retirement Fund (TRF), a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS). 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 INPRS Board of Trustees, most requirements of the system, and gives the school corporations 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, plus the interest credited to the member's account. School corporations may elect to make the contributions on behalf of the member.

Funding Policy: Plan members are required to contribute 3% of their annual creditable compensation, set by state statute. The School is required to contribute at an actuarially determined rate (7.5 % for the year ended June 30, 2013), as established, and which may be amended, by the INPRS Board of Trustees. The School did elect to make the annuity contributions on behalf of each member. Contributions to TRF for the year ended June 30, 2013 totaled \$106,942, and equaled the required contributions for the year.

B. Public Employees' Retirement Fund

Plan Description: Non-certified employees participate in the Public Employees' Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS). All full-time employees are eligible to participate in PERF. State statutes (IC 5-10.2 and 5-10.3) govern, through the INPRS Board of Trustees, most requirements of the system, and give the employer authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions, plus an annuity provided by the member's annuity savings account.

THE SIGNATURE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013

Note 4 – Defined Benefit Retirement Plans (Concluded)

B. Public Employees’ Retirement Fund (Concluded)

The annuity savings account consists of member’ contributions, plus the interest credited to the member’s account. Employers may elect to make the contributions on behalf of the member.

Funding Policy: Plan members are required to contribute 3% of their annual creditable compensation, set by state statute. The School is required to contribute at an actuarially determined rate (9.25% for the year ended June 30, 2013), as established, and which may be amended, by the INPRS Board of Trustees. The School did elect to make the annuity contributions on behalf of each member. Contributions to PERF for the year ended June 30, 2013, totaled \$6,559, and equaled the required contributions for the year.

IRPS administers both of these plans, and issues publicly available financial reports for each, which include financial statements and required supplementary information. These reports may be obtained by contacting INPRS, 1 North Capital Street, Suite 001, Indianapolis, Indiana 46204, or by calling 888-526-1687.

C. Other Retirement Plans

For certified employees, the School also provides additional retirement benefits under the plans described below:

401(a) Annuity Plan: the School contributes 1% of each employee’s base salary to the plan. Contributions totaled \$8,458 for the year ended June 30, 2013.

Voluntary Employees’ Beneficiary Association: The School contributes 1% of each employee’s base salary to the plan for retiree group health benefits. Contributions totaled \$11,632 for the year ended June 30, 2013.

403(b) Plan: The School will match 100% of employee contributions not to exceed the percentages noted below. Employer contributions totaled \$10,977 for the year ended June 30, 2013.

<u>Years of Service</u>	<u>Match Percentage</u>
0 - 16	.75%
17 - 29	1.50%
30 +	3.00%

THE SIGNATURE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013

Note 5 – Leases

The School leases two copiers under noncancelable operating leases. The lease agreements provide for minimum future rental payments as of June 30, 2013, as follows:

2014	\$154,093
2015	3,875
2016	3,285
Total minimum rentals	<u>\$161,253</u>

Rental expense for the leases totaled \$196,839 for the year ended June 30, 2013.

Note 6 – Functional Expenses

A summary of expenses by functional classification for the year ended June 30, 2013, is as follows:

Program	\$ 2,501,351
Management and General	44,147
Fundraising	0
	<u>\$ 2,545,498</u>

Note 7 – Concentration

Amount received under the state basic grant totaled 69% of all cash receipts in fiscal year 2013.

Note 8 – Contingencies

The School receives funding from Federal and state agencies and from private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantors' review, the funds are considered not to have been used for the intended purpose, the grantors may request refund of monies advanced, or refuse to reimburse the School for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the School's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

THE SIGNATURE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2013

Note 9 – Related Party Transactions

Signature School Foundation, Inc.

Signature School Foundation, Inc. (SSF) provides financial and other support for the School. The chairman of the School's Board of Directors also serves as chairman of the SSF Board of Directors.

The School's premises are leased from SSF under an annually renewable agreement which provides for monthly rental payments of \$12,500 plus reimbursements to SSF for maintenance, insurance, and utilities. Lease payments to SSF totaled \$229,108 for the year ended June 30, 2013.

Contributions received from SSF totaled \$151,300 for the year ended June 30, 2013.

At various times during the year, SSF provided cash flow advances to the School totaling \$110,000. All such advances were repaid prior to June 30, 2013.

Sponsor

Employees of the school participate in the health insurance programs offered by the School's sponsor, the Evansville-Vanderburgh School Corporation. Total amounts remitted to the sponsor for the premiums totaled \$239,669 for the year ended June 30, 2013.

Other

The chairman of the School's Board of Directors serves as chairman of a corporation, a subsidiary of which provides security system services and maintenance to the School. Amounts paid to this subsidiary for the year ended June 30, 2013 totaled \$425.

Note 10 – Cash

Cash is comprised of the following at June 30, 2013:

Restricted	\$ 106,969
Unrestricted	62,120
	<u>\$ 169,089</u>

THE SIGNATURE SCHOOL, INC.
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

The following supplementary information is required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners*.



**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

Board of Directors
Signature School, Inc.

We have audited the financial statement of Signature School, Inc. as of and for the year ended June 30, 2013, and our report thereon dated April 10, 2014, which expressed an unmodified opinion on the financial statement, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. the Schedule of Receivables, Schedule of Capital Assets, Schedule of Accounts Payable, and Schedule of Debt, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Kemper CPA Group, LLP

Evansville, Indiana
April 10, 2014

Certified Public Accountants and Consultants

THE SIGNATURE SCHOOL, INC.
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

Schedule of Receivables

Accounts Receivable:

Textbooks	<u>\$ 780</u>
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Schedule of Capital Assets

Machinery and equipment	<u>\$ 224,802</u>
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Schedule of Accounts Payable

General fund	<u>\$ 14,857</u>
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Schedule of Debt

Common School Loan, usecured, dated October 16, 2003, due in semi-annual installments of \$2,791 plus interest through July 1, 2028 bearing interest at 4%	<u>\$ 0^a</u>
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^a The Signature School applied for and received loan forgiveness from the State of Indiana for the funding received for the initial costs of establishing the School. The Common School Loan, which had a balance of \$86,526, was forgiven by the State in May of 2013.



**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***

Board of Directors
The Signature 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 statement of The Signature School, Inc. (a nonprofit organization), which comprise the statement of cash receipts and disbursements for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Signature School, Inc.’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 statement, but not for the purpose of expressing an opinion on the effectiveness of The Signature School, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 deficiency described in items 2013-1 in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Signature School's financial statement is 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*.

The Signature School, Inc.'s responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Signature School's response and, accordingly, we express no opinion on it.

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 Signature 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 Signature School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Evansville, Indiana
April 10, 2014



Certified Public Accountants and Consultants

THE SIGNATURE SCHOOL, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

Findings – Financial Statement Audit

Material Weakness:

Finding 2013-1:

Segregation of Duties

Due to the limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated. This lack of segregation of duties increases the opportunity for misappropriation of School assets and weakens the School's ability to detect possible misappropriations. Specifically, employees are entered into the accounting system by the Director of Finance, who also enters withholdings and deductions from employee pay and reconciles payroll expenses to the bank statement.

Recommendation

We recommend that an employee besides the Finance Director review payroll reports and reconcile payroll expenses to the bank statements. Also the Executive Director should periodically review payroll reports for reasonableness.

Management Response

To improve controls related specifically to payroll, the Executive Director will review and initial the "Register Prior to Processing" report. The day after payroll has cleared the bank account, a printout of the prior day bank activity will be printed and provided to the Executive Director with the "Payroll Summary" report which provides the amounts to be deducted from the bank account, as well as the previously approved "Register Prior to Processing". The Executive Director will initial the prior day processing report after verifying the payroll related amounts clearing the bank account agree to the payroll processed and the payroll previously approved. The initialed prior day bank report and register prior to processing report will be filed with the regular payroll reports.

THE SIGNATURE SCHOOL, INC.
OTHER REPORT
YEAR ENDED JUNE 30, 2013

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

Supplemental Compliance Examination Report of the Signature School, Inc.