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# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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December 16, 2014

Charter School Board
Indiana Schools of Excellence, Inc.
3423 S. Michigan Street
South Bend, IN 46614-1719

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2011 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 Indiana Schools of Excellence, Inc., as of June 30, 2012 and 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 findings in the report. Pages 22 through 24 contain two current audit findings. Management's response is on page 26.

In addition to the report presented herein, a Supplemental Audit Report for Indiana Schools of Excellence, 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

# INDIANA SCHOOLS OF EXCELLENCE, INC.

*Financial Statements and Federal Single Audit Report*

*June 30, 2013 and 2012*

Fitzgerald Isaac LLC
Certified Public Accountants

INDIANA SCHOOLS OF EXCELLENCE, INC.

Table of Contents

Fitzgerald Isaac LLC
Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Indiana Schools of Excellence, Inc.

## Report on the Financial Statements

We have audited the accompanying financial statements of **Indiana Schools of Excellence, Inc.**, 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.

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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 Indiana Schools of Excellence, 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 August 4, 2014 on our consideration of Indiana Schools of 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* in considering Indiana Schools of Excellence, Inc.'s internal control over financial reporting and compliance.

Fitzgerald / Isaac LLC

Indianapolis, IN
August 4, 2014

# INDIANA SCHOOLS OF EXCELLENCE, INC.

## Statements of Financial Position

| | June 30 | |
|---|---|---|
| Assets | 2013 | 2012 |
| Current assets: | | |
| Cash | $ 155,809 | 365,458 |
| Receivables: | | |
| State education support | 198,692 | 1,110,520 |
| Grants | 306,694 | 242,284 |
| Other | 7,322 | - |
| Prepaid expenses | 4,257 | 239 |
| Total current assets | 672,774 | 1,718,501 |
| Property and equipment: | | |
| Land | 150,000 | 150,000 |
| Building and improvements | 2,465,865 | 2,445,337 |
| Equipment | 589,048 | 562,481 |
| Furniture and fixtures | 115,744 | 110,041 |
| Less: accumulated depreciation | (747,664) | (455,283) |
| Property and equipment, net | 2,572,993 | 2,812,576 |
| | $ 3,245,767 | 4,531,077 |

| Liabilities and Net Assets | 2013 | 2012 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 432,162 | 569,715 |
| Current portion of long-term debt | 162,211 | 154,780 |
| Current portion of capital lease obligation | 5,213 | 18,474 |
| Total current liabilities | 599,586 | 742,969 |
| Accrued interest on Common School Fund loans | - | 74,031 |
| Long-term debt | 2,191,103 | 3,449,484 |
| Capital lease obligation | - | 5,214 |
| Total liabilities | 2,790,689 | 4,271,698 |
| Unrestricted net assets | 455,078 | 259,379 |
| | $ 3,245,767 | 4,531,077 |

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Activities

| | Year Ended June 30 | |
|---|---|---|
| Revenue and Support | 2013 | 2012 |
| State education support | $ 2,389,999 | 2,221,139 |
| Grant revenue | 682,656 | 998,235 |
| Student fees | 42,478 | 37,842 |
| Other | 93 | 16,540 |
| Total revenue and support | 3,115,226 | 3,273,756 |
| **Expenses** | | |
| Program services | 2,360,193 | 2,098,755 |
| Management and general | 565,132 | 638,007 |
| Total expenses | 2,925,325 | 2,736,762 |
| Change in net assets before non-operating income | 189,901 | 536,994 |
| **Non-Operating Income** | | |
| Gain due to changes in legislative funding | 5,798 | - |
| Change in net assets | 195,699 | 536,994 |
| Net assets, beginning of year | 259,379 | (277,615) |
| Net assets, end of year | $ 455,078 | 259,379 |

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Cash Flows

| | Year Ended June 30 | |
|---|---|---|
| Operating Activities | 2013 | 2012 |
| Change in net assets | $ 195,699 | 536,994 |
| Adjustments to reconcile change in net assets to cash flows from operating activities: | | |
| Gain due to changes in legislative funding | (5,798) | - |
| Depreciation | 292,380 | 273,337 |
| Change in: | | |
| Accounts receivable | (354,903) | (167,190) |
| Prepaid expenses | (4,018) | 1,540 |
| Accounts payable and accrued expenses | (106,957) | (11,241) |
| Net cash provided by operating activities | 16,403 | 633,440 |
| **Investing Activities** | | |
| Acquisition of property and equipment | (52,798) | (87,306) |
| Net cash used by investing activities | (52,798) | (87,306) |
| **Financing Activities** | | |
| Principal reduction of capital lease obligation | (18,474) | (58,117) |
| Principal repayments of long-term indebtedness | (154,780) | (193,726) |
| Net cash used by financing activities | (173,254) | (251,843) |
| Net increase (decrease) in cash | (209,649) | 294,291 |
| Cash, beginning of year | 365,458 | 71,167 |
| Cash, end of year | $ 155,809 | 365,458 |
| Supplemental disclosures: | | |
| Cash paid for interest expense | $ 140,307 | 144,993 |

See accompanying notes to financial statements.

## (1) Summary of Significant Accounting Policies

### General

Indiana Schools of Excellence, Inc. (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. The School has entered into a service agreement with American Quality Schools Corporation, an organization incorporated in the State of Illinois, to provide curriculum, managerial, administrative, and financial services to the School.

### 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.

### 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.

### Revenue Recognition

Revenues primarily 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 other 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 school year in which educational services are rendered. See Note 2 regarding legislative changes affecting revenue recognition.

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.

## (1) Summary of Significant Accounting Policies, Continued

### 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, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 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:

| | |
|---|---|
| Building and improvements | 10 to 15 years |
| Equipment | 5 to 7 years |
| Furniture and fixtures | 7 years |

### Taxes on Income

Indiana Schools of Excellence, 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.

## (1) Summary of Significant Accounting Policies, Continued

### Subsequent Events

The School evaluated subsequent events through August 4, 2014, 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.

## (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 equal monthly installments 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.

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

| | |
|---|---|
| Repayment of Common School Fund loans | $1,096,170 |
| Repayment of accrued interest on Common School Fund loans | 104,627 |
| | 1,200,797 |
| Elimination of School funding | (1,194,999) |
| | $ 5,798 |

## (3) Long-Term Debt

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

| | 2013 | 2012 |
|---|---|---|
| Note payable to United Bank, payable $6,774 monthly, including interest at 3% per annum, maturing April 2018, secured by all business assets | $565,880 | 628,951 |
| Note payable to IFF, payable $5,661 monthly, including interest at 5% per annum, maturing December 2014, secured by furniture, fixtures and equipment | 97,980 | 159,343 |
| Note payable to Charter School Development Corporation, payable $3,835 monthly, including interest at 7.5% per annum, maturing April 2018, secured by real estate | 189,454 | 219,800 |
| Note payable to IFF, interest only payable monthly at 6.5% per annum, maturing May 2018, secured by real estate | 1,500,000 | 1,500,000 |
| Notes payable to the Indiana Common School Fund | - | 1,096,170 |
| Total long-term debt | 2,353,314 | 3,604,264 |
| Less: current portion | (162,211) | (154,780) |
| | $2,191,103 | 3,449,484 |

The notes payable to the Indiana Common School Fund were comprised of three separate 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 loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

## (3) Long-Term Debt, Continued

Principal maturities of long-term debt are scheduled as follows:

| Year Ending June 30: | |
|---|---|
| 2014 | $ 162,211 |
| 2015 | 135,769 |
| 2016 | 107,084 |
| 2017 | 112,264 |
| 2018 | 1,835,986 |

## (4) Leases

The School leases computer equipment under a capital lease. At June 30, 2013, the cost and accumulated depreciation relating to these assets were $165,653 and $118,483 ($165,653 and $85,351 in 2012). The lease requires future minimum lease payments of $5,306 in 2014.

## (5) Retirement Plan

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. INPRS acts as a common administrative and investment agent for units of state and local government in Indiana. Contribution requirements are determined by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 7.25% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was $88,622 and $75,488 for the years ended June 30, 2013 and 2012, respectively.

## (6) 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 payments received. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent. Payments under this agreement for the years ended June 30, 2013 and 2012 were $30,014 and $62,133, respectively.

The School has contracted with American Quality Schools Corporation, a not-for-profit organization incorporated in the State of Illinois, to provide management, administrative and educational programming services. Under the terms of the agreement, the School has agreed to pay an amount equal to 7% of revenues, as defined, for such services. The contract commenced January 1, 2008 and expires June 30, 2014. Management fee expense under this contract was $80,197 and $122,798 for the years ended June 30, 2013 and 2012.

## (7) Risks and Uncertainties

The School provides education services to families residing in St. Joseph 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, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits are maintained at Notre Dame Federal Credit Union and frequently exceed the FDIC insurance limit.

## (8) Accounting Correction

In 2013, the School discovered that lease security deposits that were applied against lease obligations in 2011 had not been removed as an asset. The School corrected this error in accounting by restating previously issued financial statements. Net assets as of July 1, 2011 have been reduced by $39,788 to reflect this correction.

## (9) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statements 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:

| | 2013 | |
|---|---|---|
| | Program Services | Management and General |
| Salaries and wages | $1,291,596 | 144,368 |
| Employee benefits | 280,644 | 41,017 |
| Staff development and recruitment | 6,446 | - |
| Depreciation | 292,380 | - |
| Equipment | 22,045 | - |
| Food service expense | 99,568 | - |
| Insurance | - | 7,781 |
| Interest | - | 170,902 |
| Miscellaneous | - | 19,277 |
| Occupancy | 28,617 | - |
| Professional fees | 212,967 | 155,761 |
| Repairs and maintenance | 11,288 | - |
| Supplies | 55,035 | 21,270 |
| Technology | 53,742 | 840 |
| Travel | 5,865 | 3,916 |
| | $2,360,193 | 565,132 |

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

## (9) Functional Expense Reporting, Continued

| | 2012 | |
|---|---|---|
| | Program Services | Management and General |
| Salaries and wages | $1,078,010 | 147,532 |
| Employee benefits | 250,424 | 30,069 |
| Staff development and recruitment | 3,856 | - |
| Depreciation | 273,337 | - |
| Equipment | 10,088 | 1,016 |
| Food service expense | 79,943 | - |
| Insurance | - | 11,066 |
| Interest | - | 172,279 |
| Miscellaneous | - | 33,933 |
| Occupancy | 40,305 | - |
| Professional fees | 212,857 | 216,683 |
| Repairs and maintenance | 9,829 | - |
| Supplies | 100,624 | 19,746 |
| Technology | 36,063 | 735 |
| Travel | 3,419 | 4,948 |
| | $2,098,755 | 638,007 |

# INDIANA SCHOOLS OF EXCELLENCE, INC.

Schedule of Expenditures of Federal Awards

Years Ended June 30, 2013 and 2012

| Federal Grantor Agency/ Pass-Through Entity/Cluster Title/ Program Title/Project Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Total Federal Awards Expended 2013 | 2012 |
|---|---|---|---|---|
| U.S. DEPARTMENT OF EDUCATION | | | | |
| Pass-through Indiana Department of Education | | | | |
| Title I, Part A Cluster | | | | |
| Grants to Local Educational Agencies | 84.010 | | $ 142,826 | 132,146 |
| ARRA - Grants to Local Educational Agencies | 84.389 | | - | 6,746 |
| Special Education Cluster | | | | |
| Special Education - Grants to States | 84.027 | 14212-537-PN01<br>14213-537-PN01 | 64,878 | 46,879 |
| Charter Schools Program | 84.282 | A58-1-11SS-0209 | 138,000 | 580,279 |
| ARRA - Education Jobs Fund | 84.410 | | 1,051 | 51,482 |
| Total federal awards expended | | | $ 346,755 | 817,532 |

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

# Notes to the Schedule of Expenditures of Federal Awards

Years Ended June 30, 2013 and 2012

## (1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Indiana Schools of Excellence, Inc. (the "School") under programs of the federal government for the years ended June 30, 2013 and 2012. 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.

Fitzgerald Isaac LLC
Certified Public Accountants

# 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
Indiana Schools of Excellence, 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 **Indiana Schools of Excellence, Inc.** (the "School"), 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, and have issued our report thereon dated August 4, 2014.

**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.

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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 the accompanying schedule of findings and questioned costs as Finding No. 2013-001 to be a material weakness.

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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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2013-002 to be a significant deficiency.

**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.

Fitzgerald / Isaac LLC

Indianapolis, IN
August 4, 2014

Fitzgerald Isaac LLC
Certified Public Accountants

# 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
Indiana Schools of Excellence, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited **Indiana Schools of Excellence, Inc.**'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 years ended June 30, 2013 and 2012. 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.

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## Opinion on Each Major Federal Program

In our opinion, Indiana Schools of Excellence, 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 years ended June 30, 2013 and 2012.

## Report on Internal Control Over Compliance

Management of Indiana Schools of Excellence, 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 we consider to be material weaknesses. 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
August 4, 2014

INDIANA SCHOOLS OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2013 and 2012

## I. Summary of Auditor's Results

*Financial Statements*

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| ▪ Material weaknesses: | Yes |
| ▪ Significant deficiencies that are not considered to be material weaknesses: | Yes |
| 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 auditor's report issued on compliance for major programs: | Unmodified |
| Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: | No |

INDIANA SCHOOLS OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2013 and 2012

## I. Summary of Auditor's Results, Continued

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 84.282 | Charter Schools Program |

| | |
|---|---|
| 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

MATERIAL WEAKNESS

FINDING NO. 2013-001 FINANCIAL ACCOUNTING

Condition

In our audit we noted various conditions that resulted in a misstatement of the financial statements, including:

- Revenue and expense recorded in the wrong reporting year.
- Revenue not recorded in the same period as expense for cost reimbursement grants.
- General ledger data not reconciled with subsidiary ledgers.
- Improper classification of transactions by expense account.

Numerous audit entries were required to correct account balances.

## II. Financial Statement Findings, Continued

Criteria
OMB Circular A-133, Subpart C, §___.300 states in part:

"The auditee shall…

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs...

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310…."

Cause
Processes were not in place to reconcile account balances in a timely manner.

Effect
The effect of these matters resulted in an understatement of operating results for the 2012 fiscal year by $254,000 and an overstatement of operating results for 2013 by $97,000.

Recommendation
Procedures should be implemented requiring that all asset and liability accounts be reconciled as part of the month end closing process. The financial reporting process should also be subject to monitoring and oversight to assure that there is compliance with established control procedures.

Views of Responsible Officials and Corrective Action
See attached letter of response from School officials.

SIGNIFICANT DEFICIENCY

FINDING NO. 2013-002 FINANCIAL REPORTING

Condition
In our audit we noted that certain bank accounts were not included in the Schools books and records or reported in its financial statements. These accounts included activity relating to fundraising and other special purpose activities.

## II. Financial Statement Findings, Continued

Criteria
OMB Circular A-133, Subpart C, §___.310 states in part:

"(a) Financial statements. The auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements shall be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part…."

Cause
The activity represented in these accounts was outside the School's primary educational activity and did not follow the same accounting procedures.

Effect
The effect of these matters resulted in an understatement of revenue and expense by $18,519 and $14,385, respectively, in 2012 and $8,858 and $7,643, respectively, in 2013.

Recommendation
Procedures should be implemented requiring that all financial activity under the School's control be in included in the books and records. In addition, any transactions relating to these accounts should follow the School's standard internal control procedures.

Views of Responsible Officials and Corrective Action
See attached letter of response from School officials.

## III. Federal Award Findings and Questioned Costs

No matters are reportable.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Other Reports

Years Ended June 30, 2013 and 2012

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

Supplemental Audit Report of Indiana Schools of Excellence, Inc.

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*.

Attachment


# XAVIER SCHOOL OF EXCELLENCE

3423 S. Michigan Street
South Bend, IN 46614-1719

**Tania Grimes, EdD**
Director

School Office (574) 231-6600
FAX(574) 231-6640


August 4, 2014

YEARS ENDED JUNE 30, 2013 and 2012

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STAEMENT FINDINGS

OFFICIAL RESPONSE AND PLANNED CORRECTIVE ACTION

MATERIAL WEAKNESS – FINDING NO. 2013-001 FINANCIAL ACCOUNTING

Our EMO, American Quality Schools (AQS), was responsible for accounting. Our contract with AQS ended June 30, 2014 and was not renewed. Xavier School of Excellence has hired a Business Manager and contracted with a new accountant to insure that these issues do not happen again.

SIGNIFICANT DEFICIENCY – FINDING NO. 2013-002 FINANCIAL REPORTING

The accounts in question were operated by the Part Resource Network (PRN). Effective December 1, 2014, the Xavier School of Excellence accountant will assume responsibility for including all accounts in the monthly financial reports.

Respectfully,

Tania L. Grimes

Tania Grimes, EdD
Director

"Excellence Is Our Destiny!"