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February 3, 2015

Charter School Board  
Avondale Meadows Academy  
3980 Meadows Drive  
Indianapolis, IN 46205

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. 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 Avondale Meadows Academy, as of June 30, 2014, 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 Avondale Meadows 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.

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

# **AVONDALE MEADOWS ACADEMY**

*Financial Statements and Federal Single Audit Report*

*June 30, 2014*

AVONDALE MEADOWS ACADEMY

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Avondale Meadows Academy, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Avondale Meadows Academy** (an operating component of Avondale Meadows Academy, Inc., a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year 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 Avondale Meadows Academy as of June 30, 2014 and the changes in its net assets and its cash flows for the year 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 22, 2014 on our consideration of Avondale Meadows Academy'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 Avondale Meadows Academy's internal control over financial reporting and compliance.



Indianapolis, IN  
December 22, 2014

AVONDALE MEADOWS ACADEMY

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2014</u>
Current assets:	
Cash	\$ 2,070,030
Investments	246,301
Grants receivable	180,605
Prepaid expenses	33,158
Total current assets	<u>2,530,094</u>
Note receivable	350,000
Deferred loan costs	71,608
Property and equipment:	
Land	564,800
Structures and improvements	4,702,659
Equipment	1,143,908
Textbooks	711,719
Less: accumulated depreciation	<u>(1,715,832)</u>
Property and equipment, net	<u>5,407,254</u>
	 <u>\$ 8,358,956</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 243,630
Deferred lease incentives	8,520
Current portion of long-term debt	118,462
Total current liabilities	<u>370,612</u>
Long-term debt	<u>3,988,966</u>
Total liabilities	<u>4,359,578</u>
Net assets:	
Unrestricted	3,706,139
Temporarily restricted	293,239
Total net assets	<u>3,999,378</u>
	 <u>\$ 8,358,956</u>

See accompanying notes to financial statements.

AVONDALE MEADOWS ACADEMY

Statement of Activities

Revenue, Gains and Support	Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total
State education support	\$ 3,321,724	-	3,321,724
Grants	1,329,980	-	1,329,980
Student fees	60,035	-	60,035
Contributions	109,999	45,656	155,655
In-kind contributions	172,242	-	172,242
Interest income	7,047	-	7,047
Unrealized loss on investments	(2,787)	-	(2,787)
Other	19,525	-	19,525
Net assets released from restrictions	149,930	(149,930)	-
Total revenue, gains and support	<u>5,167,695</u>	<u>(104,274)</u>	<u>5,063,421</u>
<u>Expenses</u>			
Program services	4,039,212	-	4,039,212
Management and general	858,130	-	858,130
Total expenses	<u>4,897,342</u>	<u>-</u>	<u>4,897,342</u>
Change in net assets	270,353	(104,274)	166,079
Net assets, beginning of year	<u>3,435,786</u>	<u>397,513</u>	<u>3,833,299</u>
Net assets, end of year	<u>\$ 3,706,139</u>	<u>293,239</u>	<u>3,999,378</u>

See accompanying notes to financial statements.

AVONDALE MEADOWS ACADEMY

Statement of Cash Flows

<u>Operating Activities</u>	Year Ended June 30, 2014
Change in net assets	\$ 166,079
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Depreciation	341,987
Amortization of deferred loan costs	12,637
Amortization of deferred lease incentives	(7,864)
Unrealized loss on investments	2,787
Change in:	
Accounts receivable	72,384
Prepaid expenses	12,653
Accounts payable and accrued expenses	(22,544)
Net cash provided by operating activities	<u>578,119</u>
 <u>Investing Activities</u>	
Acquisition of property and equipment	(4,267,562)
Loan to related charter school	(350,000)
Purchases of investments	(99,444)
Sales/maturities of investments	102,537
Net cash used by investing activities	<u>(4,614,469)</u>
 <u>Financing Activities</u>	
Proceeds from long-term debt	4,175,000
Principal repayments of long-term debt	(67,572)
Payment of loan acquisition costs	(84,244)
Net cash provided by financing activities	<u>4,023,184</u>
 Net decrease in cash	(13,166)
 Cash, beginning of year	<u>2,083,196</u>
 Cash, end of year	<u>\$ 2,070,030</u>
 Supplemental disclosures:	
Cash paid for interest expense	\$ 79,936

See accompanying notes to financial statements.

# AVONDALE MEADOWS ACADEMY

## Notes to Financial Statements

June 30, 2014

### (1) Summary of Significant Accounting Policies

#### General

Avondale Meadows Academy (the “School”) is a public charter school established under Indiana Code 20-24 and sponsored by the Mayor’s Office of the City of Indianapolis. The sponsor has granted a charter to the School’s organizer, Avondale Meadows Academy, Inc. (formerly named Challenge Foundation Academy, Inc.), which is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. Avondale Meadows Academy, Inc. is the organizer of two charter schools located in Indianapolis.

#### Financial Statement Presentation

The School reports its financial position and activities according to two classes of assets as follows:

- Unrestricted net assets, which represent assets that the Board of Directors has discretionary control to use in carrying on the operations of the organization in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets, which represent assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

#### 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.

#### Grants Receivable

Grants 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.

AVONDALE MEADOWS ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the school year in which 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.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

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:

Structures and improvements .....	40 years
Equipment .....	3 to 5 years
Textbooks .....	4 years

## AVONDALE MEADOWS ACADEMY

### Notes to Financial Statements

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

##### Deferred Loan Costs

Costs associated with securing financing have been deferred and are being amortized over the term of the loan (5 years) using the straight-line method.

##### Taxes on Income

Avondale Meadows Academy, 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 year ended June 30, 2014, 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 2013, 2012, and 2011 are open to audit for both federal and state purposes.

##### Contributions

Contributions received are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

AVONDALE MEADOWS ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through December 22, 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) Investments

The School invests cash in excess of current operating requirements. Such investments consisted of the following as of June 30, 2014:

Corporate bonds.....	\$243,739
Cash equivalents .....	<u>2,562</u>
	<u>\$246,301</u>

(3) Note Receivable

In 2014, the School loaned to Vision Academy (another charter school operated by Avondale Meadows Academy, Inc., the School's organizer) the sum of \$350,000. The loan is unsecured and non-interest bearing. Payments of \$5,833 are due monthly beginning July 1, 2015. The note matures on July 1, 2020.

(4) Fair Value Measurements

The School's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

AVONDALE MEADOWS ACADEMY

Notes to Financial Statements

(4) Fair Value Measurements, Continued

The fair value measurements authoritative literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The School uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the School measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

The fair values of corporate bonds and money market funds are based on quoted market prices (Level 1).

(5) Restricted Net Assets

Temporarily restricted net assets represent resources received from grantors and donors but not expended for restricted purposes as of June 30, 2014. Temporarily restricted net assets as of June 30, 2014 were available for the following purposes:

Teacher awards and bonuses .....	\$269,192
Family literacy .....	11,562
Other programs .....	<u>12,485</u>
	<u>\$293,239</u>

Net assets were released from donor restrictions by incurring expenses or purchasing assets satisfying the restricted purpose. The following purpose restrictions were accomplished during the year ended June 30, 2014:

Teacher awards and bonuses .....	\$ 5,000
Family literacy .....	5,921
Building acquisition.....	66,233
Other programs .....	25,152
Refund of contribution.....	<u>47,624</u>
	<u>\$149,930</u>

AVONDALE MEADOWS ACADEMY

Notes to Financial Statements

(6) Long-Term Debt

In 2014, the School obtained financing to purchase its school facility through the sale of Educational Facility Revenue Bonds issued by the Indiana Finance Authority. The School executed a note payable to Huntington Public Capital Corporation, the holder of the bonds, in the amount of \$4,175,000. The note is payable in monthly installments of principal and interest based on a 25-year amortization schedule with the balance due October 1, 2018. The note carries a variable rate of interest based on LIBOR, which the School has converted to fixed rate of 2.83% via a rate swap agreement with Huntington National Bank. The loan is secured by land, building and other School assets. The loan agreement also contains certain covenants that limit the School's ability to incur indebtedness or guarantees, purchase or dispose of assets, or change the nature of the business. The agreement also contains financial maintenance covenants establishing a minimum debt service coverage ratio and days cash on hand requirement.

Future maturities of long-term debt are as follows:

<u>Year Ended June 30:</u>	
2015 .....	\$ 118,462
2016 .....	121,858
2017 .....	125,352
2018 .....	128,946
2019 .....	<u>3,612,810</u>
	<u>\$4,107,428</u>

(7) Leases

The School leased its building under an operating lease with Challenge Foundation Properties, Inc. through October 2013 for \$22,000 per month. In October 2013, the School purchased the building with the proceeds from a bond offering (see Note 5). The School also leases various items of equipment under operating leases. Total expense under these operating leases for 2014 was \$110,165. In 2010, the School entered into a lease agreement in which it received an amount equal to the remaining pay off of its previously leased equipment as a lease incentive. This amount has been recorded as deferred lease incentive on the statement of financial position, and is being amortized against rental expense over the life of the current lease.

AVONDALE MEADOWS ACADEMY

Notes to Financial Statements

(7) Leases, Continued

Future minimum rental payments required under operating leases are as follows:

<u>Year Ended June 30:</u>	
2015 .....	\$27,077
2016 .....	27,077
2017 .....	27,077
2018 .....	27,077

(8) Retirement Plan

The School offers retirement benefits for which substantially all full-time employees are eligible to participate. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan 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 year ended June 30, 2014 the School contributed 7.5% of compensation for teaching faculty to TRF.

The School also offers a 403(b) defined contribution retirement plan provided by the Indiana Public Charter Schools Association. Non-teaching personnel and teachers who opt to not participate in TRF are eligible for benefits under the 403(b) plan. Under the 403(b) plan, the School contributes 7.0% of each employee's defined compensation.

For the year ended June 30, 2014, retirement plan expense under both plans was \$168,766.

(9) Commitments

The School has contracted with Community Charter Network, Inc., a not-for-profit organization incorporated in the State of Indiana, to provide management and administrative services. Under the terms of the agreement, the School has agreed to pay \$7,667 per month for such services. Management fee expense under this contract was \$69,003 for the year ended June 30, 2014. The contract is renewable annually.

## AVONDALE MEADOWS ACADEMY

### Notes to Financial Statements

#### (10) Accounting Correction

In 2014, it was discovered that (1) depreciation expense for certain assets had not been recorded for fiscal years 2012 and 2013, and (2) the obligation for payments to teachers under terms of their employment contracts as of June 30, 2013 had not been recorded. The School has corrected these errors by restating previously issued financial statements. The effect of these corrections has been reflected in the accompanying financial statements by decreasing net assets as of June 30, 2013 by \$211,287.

#### (11) Risks and Uncertainties

The School provides education 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, 2014, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at Huntington National Bank and are insured up to the FDIC insurance limit.

AVONDALE MEADOWS 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 between program and management services. Following is a summary of expenses comprising each program and service for the year ended June 30, 2014:

	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$1,904,074	365,050
Amortization.....	12,637	-
Employee benefits .....	537,164	68,649
Staff development and recruitment .....	71,368	42,390
Professional services .....	341,704	173,802
Academic services .....	-	69,003
Food cost .....	231,904	-
Equipment .....	50,450	-
Repairs and maintenance.....	135,461	-
Classroom, kitchen and office supplies...	87,628	-
Network connectivity .....	73,927	-
Occupancy .....	203,223	-
Depreciation .....	341,987	-
Interest .....	-	79,936
Insurance .....	-	37,253
Miscellaneous .....	<u>47,685</u>	<u>22,047</u>
	<u>\$4,039,212</u>	<u>858,130</u>

AVONDALE MEADOWS ACADEMY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

<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		\$ 37,107
National School Lunch Program	10.555		192,483
Total for federal grantor agency			<u>229,590</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	14-9645	431,302
 Special Education Cluster			
Special Education - Grants to States	84.027	14214-540-PN01	96,076
Improving Teacher Quality State Grants	84.367		310,093
Teacher Incentive Fund	84.374	A58-3-13OT-1248	72,790
 School Improvement Cluster			
School Improvement Grants	84.377		84,311
Total for federal grantor agency			<u>994,572</u>
Total federal awards expended			<u><u>\$ 1,224,162</u></u>

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

## AVONDALE MEADOWS ACADEMY

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

#### (1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Avondale Meadows Academy (the "School") under programs of the federal government for the year ended June 30, 2014. 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  
Avondale Meadows Academy, 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 **Avondale Meadows Academy** (the "School"), which comprise the statement of financial position as of June 30, 2014, 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 22, 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 a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2014-001 to be a material weakness.

## **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 22, 2014

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  
Avondale Meadows Academy, Inc.

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

We have audited **Avondale Meadows 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, 2014. 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, Avondale Meadows Academy 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, 2014.

## **Report on Internal Control Over Compliance**

Management of Avondale Meadows Academy 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.

A handwritten signature in black ink, appearing to read "Raymond J. Lane III". The signature is written in a cursive style with some capital letters.

Indianapolis, IN  
December 22, 2014

AVONDALE MEADOWS ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

**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:	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 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

AVONDALE MEADOWS ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

**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

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

Auditee qualified as low-risk auditee: Yes

**II. Financial Statement Findings**

MATERIAL WEAKNESS

FINDING NO. 2014-001 FINANCIAL ACCOUNTING

Condition

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

- Previous year audit adjustments not recorded.
- Lack of accounting for restricted contributions.
- Expense recorded in the wrong reporting year.
- Certain property assets not being depreciated.
- Inadequate separation of accounting data for another reporting unit under common control.

Numerous audit entries were required to correct account balances, including adjustments to prior accounting periods.

AVONDALE MEADOWS ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

**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 communicate information timely to the contracted accountants, reconcile account balances in a timely manner, and review financial statements.

Effect

The effect of these matters resulted in an understatement of operating results for the 2014 fiscal year by \$742,387 and an overstatement of operating results for previous years by \$211,287.

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.

**III. Federal Award Findings and Questioned Costs**

No matters are reportable.

AVONDALE MEADOWS ACADEMY

Other Reports

Year Ended June 30, 2014

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

Supplemental Audit Report of Avondale Meadows 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*.

**Avondale Meadows Academy FY14 Audit****School Response to Material Weakness Finding****Finding NO. 2014-001 Financial Accounting**

We agree that, due to various conditions, there was an understatement of operating results by \$742,387 for FY14 and an overstatement of operating results from previous years by \$211,287. This effect was primarily the cause of a delayed FY13 audit resulting in adjustments that were not reflected in FY14 financials.

**Corrective Action per Condition:**

- Previous year audit adjustments not recorded.  
*Adjustments have now been properly recorded. Moving forward, audits will be submitted to the SBOA within 6 months of the close of a fiscal year and prior year adjustments will be made immediately upon submission.*
- Lack of accounting for restricted contributions.  
*All income and expenses will be coded to restricted funds as needed. Documentation of any donation restrictions will be maintained in the business office.*
- Expense recorded in the wrong reporting year.  
*School will work with auditors and accountants to ensure proper recording of all expenses.*
- Certain property assets not being depreciated.  
*Accountants will maintain a depreciation schedule and utilize the straight-line depreciation method to update this schedule on a regular basis.*
- Inadequate separation of accounting data for another reporting unit under common control.  
*As of July 1, 2014, Vision Academy @ Riverside and Avondale Meadows Academy have had fully separate financial records. These will be maintained as separate moving forward.*