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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

January 21, 2016

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention two current audit findings disclosed in the reports. Details of the findings may be found in the Schedule of Findings and Questions Costs on Pages 24-28. The status of the prior audit finding may be found in the Status of Prior Audit Findings on Page 29.

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, INC.

Financial Statements and Federal Single Audit Report

June 30, 2015



AVONDALE MEADOWS ACADEMY, INC.

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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, Inc.**, which comprise the statement of financial position as of June 30, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Avondale Meadows Academy, Inc.** as of June 30, 2015 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 on page 15, 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. Likewise, the schedule of financial position by school on page 17 and the schedule of activities by school on page 18 are presented for purposes of additional analysis and are 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 November 25, 2015 on our consideration of **Avondale Meadows Academy, 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 **Avondale Meadows Academy, Inc.**'s internal control over financial reporting and compliance.

Donovan P.C.

Indianapolis, IN
November 25, 2015

AVONDALE MEADOWS ACADEMY, INC.

Statement of Financial Position

	June 30, 2015		
Assets	Unrestricted	Temporarily Restricted	Total
Current assets:			
Cash	\$ 1,230,915	236,972	1,467,887
Investments	1,250,830	-	1,250,830
Accounts receivable:			
Grants	142,613	-	142,613
Other	12,638	-	12,638
Prepaid expenses	38,287	-	38,287
Total current assets	<u>2,675,283</u>	<u>236,972</u>	<u>2,912,255</u>
Deferred loan fees	54,758	-	54,758
Property and equipment:			
Land	564,800	-	564,800
Buildings and improvements	13,345,319	-	13,345,319
Furniture and equipment	1,685,104	-	1,685,104
Textbooks	711,719	-	711,719
Less: accumulated depreciation	(2,410,313)	-	(2,410,313)
Property and equipment, net	<u>13,896,629</u>	<u>-</u>	<u>13,896,629</u>
	<u>\$ 16,626,670</u>	<u>236,972</u>	<u>16,863,642</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 446,634	-	446,634
Current portion of long-term debt	208,565	-	208,565
Current portion of capital lease obligations	30,428	-	30,428
Total current liabilities	<u>685,627</u>	<u>-</u>	<u>685,627</u>
Long-term debt	4,193,456	-	4,193,456
Capital lease obligations	9,074,557	-	9,074,557
Total liabilities	<u>13,953,640</u>	<u>-</u>	<u>13,953,640</u>
Net assets	<u>2,673,030</u>	<u>236,972</u>	<u>2,910,002</u>
	<u>\$ 16,626,670</u>	<u>236,972</u>	<u>16,863,642</u>

See accompanying notes to financial statements.

AVONDALE MEADOWS ACADEMY, INC.

Statement of Activities

	Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total
<u>Revenue and Support</u>			
State education support	\$ 5,096,571	-	5,096,571
Grant revenue	2,135,000	-	2,135,000
Student fees	45,684	-	45,684
Contributions	123,490	-	123,490
Investment income	4,661	-	4,661
Other	177,272	-	177,272
Net assets released from restrictions	25,695	(25,695)	-
Total revenue and support	<u>7,608,373</u>	<u>(25,695)</u>	<u>7,582,678</u>
<u>Expenses</u>			
Program services	7,183,486	-	7,183,486
Management and general	1,392,926	-	1,392,926
Total expenses	<u>8,576,412</u>	<u>-</u>	<u>8,576,412</u>
Change in net assets	(968,039)	(25,695)	(993,734)
Net assets, beginning of year	<u>3,641,069</u>	<u>262,667</u>	<u>3,903,736</u>
Net assets, end of year	<u>\$ 2,673,030</u>	<u>236,972</u>	<u>2,910,002</u>

See accompanying notes to financial statements.

AVONDALE MEADOWS ACADEMY, INC.

Statement of Cash Flows

	Year Ended June 30, 2015
<u>Operating Activities</u>	
Change in net assets	\$ (993,734)
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Depreciation and amortization	711,331
Interest expense added to capital lease obligation	389,763
Change in:	
Accounts receivable	40,431
Prepaid expenses	(5,129)
Accounts payable and accrued expenses	194,484
Net cash provided by operating activities	<u>337,146</u>
<u>Investing Activities</u>	
Purchases of investments, net of maturities	(1,004,529)
Purchases of property and equipment	(408,424)
Net cash used by investing activities	<u>(1,412,953)</u>
<u>Financing Activities</u>	
Borrowings under equipment loan	466,450
Principal repayment of long-term debt	(171,857)
Principal reduction of capital lease obligations	(19,893)
Net cash provided by financing activities	<u>274,700</u>
Net decrease in cash	(801,107)
Cash, beginning of year	<u>2,268,994</u>
Cash, end of year	<u><u>\$ 1,467,887</u></u>
Supplemental disclosures:	
Cash paid for interest expense	\$ 458,747
Non-cash investing and financing activities:	
Property and equipment acquired under capital lease	\$ 8,735,116

See accompanying notes to financial statements.

AVONDALE MEADOWS ACADEMY, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

General

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

Financial Statement Presentation

AMA 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 programs and legislation enacted by the State of Indiana. Management believes that AMA is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

AVONDALE MEADOWS ACADEMY, INC.

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, AMA 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 year in which educational services are rendered.

A portion of the AMA's revenue is the product of cost reimbursement grants. Accordingly, AMA 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 statement of activities as increases or decreases in unrestricted net assets.

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:

Buildings and improvements	30 to 40 years
Furniture and equipment	3 to 5 years
Textbooks	4 years

AVONDALE MEADOWS ACADEMY, INC.

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, AMA would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2015, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require AMA 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. AMA has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 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. AMA 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, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

AMA evaluated subsequent events through November 25, 2015, 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

AMA invests cash in excess of current operating requirements. Such investments consisted of the following as of June 30, 2015:

Negotiable certificates of deposit	\$1,249,689
Cash equivalents	<u>1,141</u>
	<u>\$1,250,830</u>

(3) Fair Value Measurements

AMA'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. Although AMA 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, INC.

Notes to Financial Statements

(3) 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. AMA uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, AMA 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 negotiable certificates of deposit and money market funds are based on quoted market prices (Level 1).

(4) Restricted Net Assets

Temporarily restricted net assets represent resources received from grantors and donors but not expended for restricted purposes as of June 30, 2015. Temporarily restricted net assets as of June 30, 2015 were available for the following purposes:

Teacher awards and bonuses	\$234,192
Other programs	<u>2,780</u>
	<u>\$236,972</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, 2015:

Family literacy	\$11,562
Teacher awards and bonuses	5,000
Impact 100	<u>9,133</u>
	<u>\$25,695</u>

AVONDALE MEADOWS ACADEMY, INC.

Notes to Financial Statements

(5) Long-Term Debt

Long-term debt consisted of the following as of June 30, 2015:

Bond obligation payable to Huntington Public Capital Corporation	\$3,984,188
Equipment loan payable to IFF	<u>417,833</u>
	4,402,021
Less: current portion.....	<u>(208,565)</u>
	<u>\$4,193,456</u>

In 2014, AMA obtained financing to purchase one of its school facilities through the sale of Educational Facility Revenue Bonds issued by the Indiana Finance Authority. AMA 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 AMA 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 business assets. The loan agreement also contains certain covenants that limit AMA'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.

The loan from IFF is payable in monthly installments of \$8,802, including interest at 5% per annum, through November 2019. The loan is secured by a first position in all of AMA's furniture, fixtures, and equipment.

Future maturities of long-term debt are as follows:

<u>Year Ended June 30:</u>	
2016	\$ 208,565
2017	216,496
2018	224,752
2019	3,708,741
2020	<u>43,467</u>
	<u>\$4,402,021</u>

AVONDALE MEADOWS ACADEMY, INC.

Notes to Financial Statements

(6) Leases

AMA entered into an agreement to lease a building under a capital lease that commenced September 1, 2014. The lease is accounted for as a capital lease. The lease initially requires monthly rental payments of \$31,488, which escalate each year through the termination of the lease in 2043. AMA is also responsible for all costs associated with the building, including insurance, taxes, repairs, maintenance, and utilities. AMA also leases certain items of equipment under a lease that is accounted for as a capital lease. At June 30, 2015, the cost and accumulated depreciation relating to the leased building and equipment were recorded at \$8,735,116 and \$263,188, respectively.

Following is a schedule of future minimum lease payments under the capital leases and the present value of net minimum lease payments as of June 30, 2015:

Year Ended June 30:

2016	\$ 471,164
2017	514,979
2018	574,623
2019	864,264
2020	950,136
Thereafter	<u>28,853,328</u>
Total minimum lease payments.....	32,228,494
Less: amount representing interest	<u>(23,123,509)</u>
	<u>\$ 9,104,985</u>

AMA also leases various items of equipment under operating leases that expire in years through 2020. Total expense under operating leases for 2015 was \$49,909. Future minimum rental payments required under operating leases are as follows:

Year Ended June 30:

2016	\$47,280
2017	47,280
2018	47,280
2019	26,976
2020	3,368

AVONDALE MEADOWS ACADEMY, INC.

Notes to Financial Statements

(7) Retirement Plans

AMA provides retirement benefits covering substantially all full-time employees. 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 determined annually by the INPRS Board. In 2015, AMA contributed 7.5% of compensation for teaching faculty to TRF. Should AMA elect to withdraw from TRF, AMA could be subject to a withdrawal fee. AMA's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2014 (the latest year reported), TRF was more than 80% funded. A copy of the complete annual report for the year ended June 30, 2014 can be obtained at:

www.in.gov/inprs/files/2014INPRSCAFRBook_Web.pdf

AMA also offers a 403(b) defined contribution retirement plan. 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, AMA contributes 7% of each employee's defined compensation.

For the year ended June 30, 2015, retirement plan expense under both plans was \$231,543.

(8) Risks and Uncertainties

AMA 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 AMA. Additionally, AMA is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on AMA.

Financial instruments that potentially subject AMA to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2015, 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, INC.

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, 2015:

	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages	\$3,077,130	611,209
Employee benefits	707,806	211,630
Staff development and recruitment	62,295	-
Professional services	256,827	387,130
Transportation	18,655	-
Food cost	409,499	-
Equipment	142,388	-
Repairs and maintenance.....	198,505	-
Classroom, kitchen and office supplies...	262,606	56,580
Information technology	251,392	-
Occupancy	223,974	-
Depreciation	694,481	-
Amortization	16,849	-
Interest	848,510	-
Insurance	-	43,752
Other	<u>12,569</u>	<u>82,625</u>
	<u>\$7,183,486</u>	<u>1,392,926</u>

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

<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		\$ 49,356
National School Lunch Program	10.555		319,780
Total for cluster			<u>369,136</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		855,241
Special Education Cluster			
Special Education - Grants to States	84.027	14215-588-DY01 14215-588-PN01 45715-540-PN01	161,484
Charter Schools Program	84.282	A58-5-15OT-2438	253,613
Improving Teacher Quality State Grants	84.367		102,629
Teacher Incentive Fund	84.374		174,163
Total for federal grantor agency			<u>1,547,130</u>
Total federal awards expended			<u>\$ 1,916,266</u>

See accompanying Independent Auditor's Report.

See accompanying notes to this schedule.

AVONDALE MEADOWS ACADEMY, INC.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Avondale Meadows Academy, Inc. (“AMA”) under programs of the federal government for the year ended June 30, 2015. 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 AMA, it is not intended to and does not present the financial position, changes in net assets or cash flows of AMA.

(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.

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Financial Position by School

Assets	June 30, 2015		
	Avondale	Vision	Total
Current assets:			
Cash	\$ 1,068,121	399,766	1,467,887
Investments	1,250,830	-	1,250,830
Accounts receivable:			
Grants	107,018	35,595	142,613
Other	8,878	3,760	12,638
Prepaid expenses	27,126	11,161	38,287
Total current assets	<u>2,461,973</u>	<u>450,282</u>	<u>2,912,255</u>
Deferred loan costs	54,758	-	54,758
Property and equipment:			
Land	564,800	-	564,800
Buildings and improvements	4,702,659	8,642,660	13,345,319
Furniture and equipment	1,245,884	439,220	1,685,104
Textbooks	711,719	-	711,719
Less: accumulated depreciation	<u>(2,082,927)</u>	<u>(327,386)</u>	<u>(2,410,313)</u>
Property and equipment, net	<u>5,142,135</u>	<u>8,754,494</u>	<u>13,896,629</u>
	<u>\$ 7,658,866</u>	<u>9,204,776</u>	<u>16,863,642</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 278,815	167,819	446,634
Due to (from) affiliate	198,964	(198,964)	-
Current portion of long-term debt	121,858	86,707	208,565
Current portion of capital lease obligations	-	30,428	30,428
Total current liabilities	<u>599,637</u>	<u>85,990</u>	<u>685,627</u>
Note payable to (from) affiliate	(350,000)	350,000	-
Long-term debt	3,862,330	331,126	4,193,456
Capital lease obligations	-	9,074,557	9,074,557
Total liabilities	<u>4,111,967</u>	<u>9,841,673</u>	<u>13,953,640</u>
Net assets (deficiency)	<u>3,546,899</u>	<u>(636,897)</u>	<u>2,910,002</u>
	<u>\$ 7,658,866</u>	<u>9,204,776</u>	<u>16,863,642</u>

See accompanying Independent Auditor's Report.

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Activities by School

Revenue and Support	Year Ended June 30, 2015		
	Avondale	Vision	Total
State education support	\$ 3,110,591	1,985,980	5,096,571
Grant revenue	1,322,448	812,552	2,135,000
Student fees	41,791	3,893	45,684
Contributions	58,403	65,087	123,490
Investment income	4,661	-	4,661
Other	49,963	127,309	177,272
Total revenue and support	<u>4,587,857</u>	<u>2,994,821</u>	<u>7,582,678</u>
<u>Expenses</u>			
Program services	4,189,010	2,994,476	7,183,486
Management and general	851,326	541,600	1,392,926
Total expenses	<u>5,040,336</u>	<u>3,536,076</u>	<u>8,576,412</u>
Change in net assets	(452,479)	(541,255)	(993,734)
Net assets (deficiency), beginning of year	<u>3,999,378</u>	<u>(95,642)</u>	<u>3,903,736</u>
Net assets (deficiency), end of year	<u><u>\$ 3,546,899</u></u>	<u><u>(636,897)</u></u>	<u><u>2,910,002</u></u>

See accompanying Independent Auditor's Report.



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, Inc.** ("AMA"), which comprise the statement of financial position as of June 30, 2015, 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 November 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AMA'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 AMA's internal control. Accordingly, we do not express an opinion on the effectiveness of AMA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2015-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AMA'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 AMA'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

Donovan P.C.

Indianapolis, IN
November 25, 2015



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, Inc.**'s ("AMA") 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 AMA's major federal programs for the year ended June 30, 2015. AMA'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 AMA'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 AMA'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 AMA's compliance.

Opinion on Each Major Federal Program

In our opinion, **Avondale Meadows Academy, Inc.** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding No. 2015-002. Our opinion on each major federal program is not modified with respect to this matter.

AMA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. AMA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of **Avondale Meadows Academy, 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 AMA'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 AMA'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.

Donovan P.C.

Indianapolis, IN
November 25, 2015

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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:	Yes

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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
10.553	Child Nutrition Cluster School Breakfast Program
10.555	National School Lunch Program

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

MATERIAL WEAKNESS

FINDING NO. 2015-001 FINANCIAL ACCOUNTING

Condition

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

- Improper accounting for capital lease transactions.
- Inaccurate accounting for accrued compensation

Audit entries were required to correct account balances, which materially affected the financial statements.

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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 assure that complete and accurate information was communicated timely with which to properly account for certain transactions.

Effect

The effect of these matters resulted in an overstatement of operating results for the 2015 fiscal year by approximately \$550,000.

Recommendation

Procedures should be implemented to assure that the accounting for significant transactions is in accordance with generally accepted accounting principles. 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.

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs

FINDING NO. 2015-002 GRANT MANAGEMENT

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Improving Teacher Quality State Grants
CFDA Number: 84.367
Award Year: FY 2014-15

Questioned
Costs

Condition

AMA charged costs relating to employee bonuses to the grant; however, this type of cost was not provided for in the grant budget.

Criteria

OMB Circular A-110, §__.25 states, in part that “the budget plan is the financial expression of the project or program as approved during the award process...Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section....”

Cause

The cost associated with the employee bonuses was not recorded as compensation, but rather as professional development expense. AMA did not request approval for amendment of the grant budget prior to incurring the cost.

Effect

The failure to properly report the employee bonuses resulted in reimbursement for costs that were not provided for in the grant budget.

Context

Costs incurred outside of the provisions in the budget are not allowable.

\$ 17,487

AVONDALE MEADOWS ACADEMY, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

Recommendation

We recommend that AMA implement a process to determine the nature and classification of costs at the time that the expenditures occur, and confirm that the costs meet the established budget criteria of the grant.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

AVONDALE MEADOWS ACADEMY, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS

FINDING 2014-001

FINANCIAL ACCOUNTING

Condition

In 2014, it was noted that various conditions existed that resulted in a misstatement of the financial statements, relating primarily to the failure to record audit adjustments, reporting expenses in the wrong reporting year, depreciation of property and equipment, and accounting for restricted contributions. Numerous audit entries were required to correct account balances.

Recommendation

The auditor recommended that procedures be implemented to assure that all asset and liability accounts be reconciled as part of the month end closing process, and that financial reports be subject to formal internal review to assure that they reflect all significant transactions.

Current Status

Efforts were made to correct the condition noted above, which were effective in many regards; however, the accounting for lease transactions and employment contracts for teaching personnel was not effective and resulted in audit adjustments in 2015.

AVONDALE MEADOWS ACADEMY, INC.

Other Reports

Year Ended June 30, 2015

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

Supplemental Audit Report of Avondale Meadows Academy, 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

On November 30, 2015 a meeting was held with representatives from both Donovan PC and Avondale Meadows Academy and dba Vision Academy at Riverside (AMA), to discuss the comments made in the FY2015 audit. Below is the official response.

MATERIAL WEAKNESS

FINDING NO. 2015-001 FINANCIAL ACCOUNTING

Condition

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

- Improper accounting for capital lease transactions.

Corrective Action: We agree with Donovan, PC's determination that the lease transactions should be classified as capital leases. All future transactions related to these leases will be treated accordingly.

- Inaccurate accounting for accrued compensation

Corrective Action: Teacher salaries earned throughout the school year but paid in July each year are now being accrued throughout the entire fiscal year.

FINDING NO. 2015-002 GRANT MANAGEMENT

Federal Agency: U.S. Department of Education

Pass-Through Agency: Indiana Department of Education

Federal Program: Improving Teacher Quality State Grants

CFDA Number: 84.367 Award Year: FY 2014-15

Condition

- AMA charged costs relating to employee bonuses to the grant; however, this type of cost was not provided for in the grant budget.

Corrective Action: There was a miscommunication between the school and the accounting vendor which led to reporting unallowable expenses. In addition to changing accounting vendors, management is more closely reviewing all supporting documentation for grant claims to ensure that appropriate expenses are being reported.