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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

December 6, 2016

Charter School Board
21st Century Charter School at Fountain Square Inc.
333 N Pennsylvania Street
Indianapolis, IN 46204

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 21st Century Charter School at Fountain Square Inc., 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.

In addition to the report presented herein, a Supplemental Audit Report for the 21st Century Charter School at Fountain Square 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.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

21ST CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Financial Statements and Federal Single Audit Report

June 30, 2015 and 2014



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of 21st Century Charter School at Fountain Square, Inc. d/b/a University Heights Preparatory Academy, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and change in net assets, 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.

Auditors' 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 auditors' 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 auditors consider 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.

www.cpadonovan.com

Avon Office | 5151 E. U.S. HWY 36 Avon, IN 46123 | 317.745.6411

Indianapolis Office | 9245 North Meridian Street, Ste. 302 Indianapolis, IN 46260 | 317.844.8300

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Charter School at Fountain Square, Inc. as of June 30, 2015 and 2014, 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.

Emphasis of Matter

21st Century Charter School at Fountain Square, Inc. ceased business operations as of June 30, 2015 when the School's sponsor did not renew the School's charter upon expiration. As discussed in Note 2 to the financial statements, the assets reported as of June 30, 2015 will be used to pay outstanding obligations and costs of dissolution. Any remaining assets will be distributed in accordance with the articles of incorporation.

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, 2016 on our consideration of 21st Century Charter School at Fountain Square, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 21st Century Charter School at Fountain Square, Inc.'s internal control over financial reporting and compliance.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized 'D'.

Indianapolis, Indiana
August 4, 2016

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Statements of Financial Position

	June 30	
	2015	2014
<u>Assets</u>		
Current assets:		
Cash	\$ 220,360	\$ 114,193
Accounts receivable:		
Grants	212,966	98,734
Other	1,359	4,507
Note receivable, current portion	33,333	-
Prepaid expense	25,315	55,622
Total current assets	<u>493,333</u>	<u>273,056</u>
 Note receivable	 <u>66,667</u>	 <u>-</u>
 Property and equipment:		
Leasehold improvements	5,099	5,099
Furniture and equipment	1,037,359	1,053,457
Vehicle	12,450	12,450
Less: accumulated depreciation	(893,255)	(807,170)
Property and equipment, net	<u>161,653</u>	<u>263,836</u>
	<u><u>\$ 721,653</u></u>	<u><u>\$ 536,892</u></u>
 <u>Liabilities and Net Assets</u>		
Accounts payable and accrued expenses	\$ 20,120	\$ 178,255
Note payable	6,962	82,292
Refundable advances	5,453	5,468
Total liabilities	<u>32,535</u>	<u>266,015</u>
 Unrestricted net assets	 <u>689,118</u>	 <u>270,877</u>
	<u><u>\$ 721,653</u></u>	<u><u>\$ 536,892</u></u>

See accompanying notes to financial statements.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.

d/b/a

UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Statements of Activities and Change in Net Assets

	Year Ended June 30	
	2015	2014
<u>Revenue and Support</u>		
State education support	\$ 1,540,678	\$ 1,859,874
Grant revenue	1,935,030	1,424,854
Student fees	3,656	3,518
Contributions	16,500	12,530
Other income	55,111	12,921
Total revenue and support	<u>3,550,975</u>	<u>3,313,697</u>
<u>Expenses</u>		
Program services	2,778,711	2,535,045
Management and general	354,023	827,714
Total expenses	<u>3,132,734</u>	<u>3,362,759</u>
Increase (decrease) in net assets	418,241	(49,062)
Net assets, beginning of year	<u>270,877</u>	<u>319,939</u>
Net assets, end of year	<u>\$ 689,118</u>	<u>\$ 270,877</u>

See accompanying notes to financial statements.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.

d/b/a

UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
<u>Operating Activities</u>		
Change in net assets	\$ 418,241	\$ (49,062)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Loss on disposal of assets	-	5,321
Depreciation	97,037	87,781
Change in:		
Accounts receivable	(111,084)	(544)
Prepaid expense	30,307	(34,899)
Accounts payable and accrued expenses	(158,135)	42,331
Refundable advances	(15)	1,388
Net cash provided by operating activities	<u>276,351</u>	<u>52,316</u>
<u>Investing Activities</u>		
Loan to affiliated entity	(100,000)	-
Purchases of property and equipment	-	(210,494)
Proceeds from sale of property and equipment	5,146	-
Net cash used by investing activities	<u>(94,854)</u>	<u>(210,494)</u>
<u>Financing Activities</u>		
Principal repayment of note payable	<u>(75,330)</u>	<u>(67,708)</u>
Net cash used by financing activities	<u>(75,330)</u>	<u>(67,708)</u>
Net increase (decrease) in cash	106,167	(225,886)
Cash, beginning of year	<u>114,193</u>	<u>340,079</u>
Cash, end of year	<u>\$ 220,360</u>	<u>\$ 114,193</u>
Supplemental disclosures:		
Cash payments for interest expense	\$ 3,597	\$ 4,791

See accompanying notes to financial statements.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Notes to Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

General

21st Century Charter School at Fountain Square, Inc. d/b/a University Heights Preparatory Academy (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operated a public charter school established under Indiana Code 20-24 and sponsored by Ball State University (see Note 2).

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.

Subsequent Events

The School evaluated subsequent events through August 4, 2016, 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. Certain subsequent events are described in Note 2.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Revenues generally come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by 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 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.

Property and Equipment

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

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

Leasehold improvements.....	5 to 9 years
Furniture and equipment	3 to 5 years
Vehicle.....	5 years

Taxes on Income

21st Century Charter School at Fountain Square, 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, 2015 and 2014, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.

d/b/a

UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income, Continued

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 after 2011 are open to audit for both federal and state purposes.

(2) Dissolution

In 2015, the School received notification from its charter sponsor, Ball State University, that the sponsor would not renew the charter upon expiration on June 30, 2015. With the loss of the charter, funding from the State of Indiana also ceased as of June 30, 2015. Funding from the State of Indiana comprises substantially all of the organization's revenue. Consequently, the Board of Directors elected to cease business operations effective June 30, 2015, and directed management to undertake a plan of liquidation.

Under such plan of liquidation, the School intends to collect any accounts receivable, sell or donate any property and equipment, and settle all outstanding obligations. Any remaining cash resources will be distributed in accordance with the School's articles of incorporation. As of June 30, 2015, no adjustments have been made to recorded assets and liabilities relative to the anticipated liquidation.

(3) Note Receivable

The School has a \$100,000 note receivable due from Community Charter Network, Inc. The loan is unsecured, non-interest bearing, and is to be paid in 36 equal monthly installments beginning July 2015.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.

d/b/a

UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Notes to Financial Statements

(4) Note Payable

The School has a note payable with Old National Bank to provide short-term financing. The loan required monthly payments of \$6,981 through July 2015. The loan is secured by all business assets, and guaranteed by certain members of the Board of Directors.

(5) Leases

The School leases its building and as well as certain items of office equipment under operating leases. Total expense under operating leases for 2015 and 2014 was \$323,538 and \$309,855, respectively. Minimum future rental payments as of June 30, 2015 for all operating leases with initial, noncancelable lease terms in excess of one year are as follows:

Year ending June 30:

2016	\$ 44,737
2017	19,737
2018	9,869

(6) Retirement Plans

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 years ended June 30, 2015 and 2014, the School contributed 7.5% of compensation for teaching faculty to TRF.

The School also offers a Section 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, the School contributes 7% of each employee's defined compensation.

For the years ended June 30, 2015 and 2014, retirement plan expense under both plans was \$84,750 and \$111,442, respectively.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.

d/b/a

UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Notes to Financial Statements

(7) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Expense under this charter agreement was \$13,599 and \$31,305 for the years ended June 30, 2015 and 2014, respectively. The charter remained in effect until June 30, 2015, and was not renewed upon expiration. See Note 2 for additional information.

(8) Risks and Uncertainties

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

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

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2015 and 2014, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits are maintained at Old National Bank and are insured up to the FDIC insurance limit.

(9) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2015 and 2014, the School had refundable grant advances in excess of expenditures of \$5,453 and \$5,468, respectively.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Notes to Financial Statements

(10) 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 years ended June 30, 2015 and 2014:

	<u>2015</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$1,338,219	63,393
Employee benefits	338,685	30,101
Staff development and recruitment	33,530	-
Professional services	140,273	49,278
Textbooks and educational materials	7,651	-
Authorizer oversight fee	-	13,599
Academic services	-	142,208
Transportation	105,157	-
Food costs	75,237	-
Equipment rental and expense.....	25,003	-
Repairs and maintenance.....	9,260	-
Technology	137,514	-
Classroom, kitchen and office supplies...	45,660	3,677
Occupancy	393,252	-
Depreciation	97,037	-
Interest	-	3,597
Insurance	-	12,389
Other	<u>32,233</u>	<u>35,781</u>
	<u>\$ 2,778,711</u>	<u>354,023</u>

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Notes to Financial Statements

(10) Functional Expense Reporting, Continued

	<u>2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$1,140,791	387,606
Employee benefits	280,117	92,883
Staff development and recruitment	48,304	-
Professional services	88,866	124,365
Textbooks and educational materials	2,894	-
Authorizer oversight fee	-	31,305
Academic services	-	113,659
Transportation	91,064	-
Food costs	127,771	-
Equipment rental and expense.....	16,748	-
Repairs and maintenance.....	42,582	-
Technology	198,451	-
Classroom, kitchen and office supplies...	32,535	10,238
Occupancy	366,362	-
Depreciation	87,781	-
Interest	-	4,791
Insurance	-	23,458
Other	<u>10,779</u>	<u>39,409</u>
	<u>\$2,535,045</u>	<u>827,714</u>

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

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		\$ 17,955
National School Lunch Program	10.555		62,607
Total for cluster			<u>80,562</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		285,861
Special Education Cluster			
Special Education - Grants to States	84.027	14213-543-PN01	56,434
Improving Teacher Quality State Grants	84.367		27,727
School Improvement Cluster			
School Improvement Grants	84.377		<u>1,461,929</u>
Total for federal grantor agency			<u>1,831,951</u>
Total federal awards expended			<u>\$ 1,912,513</u>

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

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

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 21st Century Charter School at Fountain Square, Inc. d/b/a University Heights Preparatory Academy (the "School") 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 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 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 21st Century Charter School at Fountain Square, Inc. d/b/a University Heights Preparatory Academy (the "School"), which comprise the statement of financial position as of June 30, 2015, 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 August 4, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

DONOVAN

A handwritten signature in dark ink, appearing to read "DONOVAN", is written over a light green rectangular background.

Indianapolis, Indiana
August 4, 2016



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

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

Report on Compliance for Each Major Federal Program

We have audited 21st Century Charter School at Fountain Square, Inc. d/b/a University Heights Preparatory 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, 2015. 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.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, 21st Century Charter School at Fountain Square, Inc. complied, in all material respects, with the 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 instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2015-001 and 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

21st Century Charter School at Fountain Square, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying attached document. 21st Century Charter School at Fountain Square, Inc.'s response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of 21st Century Charter School at Fountain Square, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any weaknesses in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding No. 2015-001 and 2015-002 that we consider to be significant deficiencies.

21st Century Charter School at Fountain Square, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying attached document. 21st Century Charter School at Fountain Square, Inc.'s response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive, slightly stylized font. The letters are connected, and the overall shape is elongated.

Indianapolis, IN
August 4, 2016

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

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:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
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

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results, Continued

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.377

School Improvement Cluster
School Improvement Grants

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee:

No

II. Financial Statement Findings

No matters were reportable.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs

FINDING NO. 2015-001 FINANCIAL REPORTING

SIGNIFICANT DEFICIENCY

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	School Improvement Grants
CFDA Number:	84.377
Award Year:	FY 2014-2015

Questioned
Costs

Condition

The School was unable to provide an explanation for how expenses assigned to the grant were applied to the grant budget categories.

Criteria

OMB Circular A-110, §__.25 states, in part:

- “(a) The budget plan is the financial expression of the project or program as approved during the award process . . .
- (b) 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 School did not have procedures in place to assure documentation was maintained to show how grant expenses were applied to the budget.

Effect

The failure to properly report costs and expenses to a grant program could result in liability to the School.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

	<u>Questioned Costs</u>
<u>Context</u> We examined a detailed listing of costs applied to the grant. While expenses appeared appropriate for the grant, we were unable to determine where the expenses were applied with regard to the budget.	-0-

Recommendation
We recommend that the School implement a process to record grant expenditures in the same categories as the budget contained in the grant agreement.

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

FINDING NO. 2015-002 GRANT MANAGEMENT

SIGNIFICANT DEFICIENCY

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	School Improvement Grants
CFDA Number:	84.377
Award Year:	FY 2014-2015

Condition
Claim submission was based on data accumulated on worksheets, rather than the general ledger. Frequent reclassifications of costs from the general fund were made subsequent to transaction date to apply costs to the grant.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

Criteria

OMB Circular A-122, Attachment A, Subsection 2. states, in part:

“2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria: . . .

(e) Be determined in accordance with generally accepted accounting principles (GAAP) . . .

(g) Be adequately documented.”

Cause

The School did not utilize the data contained in its general ledger as the basis for claims submission.

Effect

The failure to properly document costs claimed for reimbursement could result in improper reimbursement.

Context

Costs reported that are not properly documented and supported are not allowable.

-0-

Recommendation

We recommend that the School implement a process to ensure grant costs are properly recorded at the time of the transaction, and that the accounting records serve as the basis for claims submission.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

21st CENTURY CHARTER SCHOOL AT FOUNTAIN SQUARE, INC.
d/b/a
UNIVERSITY HEIGHTS PREPARATORY ACADEMY

Other Reports

Year Ended June 30, 2015

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

Supplemental Audit Report of 21st Century Charter School at Fountain Square, Inc.
d/b/a University Heights Preparatory 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*.

The logo for University Heights Preparatory Academy is a circular emblem. It features the words "UNIVERSITY HEIGHTS" in a bold, purple, sans-serif font at the top. Below this, in a smaller, grey, sans-serif font, are the words "PREPARATORY ACADEMY". The entire emblem is set against a white background within a grey circular border.

PREPARATORY
ACADEMY

UHP Audit: Findings and Responses

July 1, 2014 to June 30, 2015

Finding No. 2015-001, Financial Reporting:

Condition: The school was unable to provide an explanation for how expenses assigned to the grant were applied to the grant budget categories.

Response: We agree with the auditors' finding; however, we cannot comply or correct this matter due to the closing of *University Heights Preparatory* and its dissolution, July 1, 2015.

Finding No. 2015-002, Financial Reporting:

Condition: Claim submission was based on data accumulated on worksheets, rather than the general ledger. Frequent reclassifications of costs from the general fund were made subsequent to transaction data to apply cost to the grant.

Response: We agree with the auditors' finding and would, ordinarily, take steps to ensure transactions be recorded at the time of the transaction; however, we cannot comply or correct this matter due to the closing of *University Heights Preparatory* and its dissolution, July 1, 2015.