

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
ASPIRE CHARTER ACADEMY
LAKE COUNTY, INDIANA
July 1, 2008 to June 30, 2010



FILED

03/31/2011

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
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	5-6
Management's Discussion and Analysis	7-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	10-11
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds	12-13
Notes to Financial Statements	14-17
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds	18-20
Schedule of Capital Assets	21
Audit Result and Comment:	
Concerns Over Internal Controls With Financial Transactions and Reporting	22-32
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	34-35
Schedule of Expenditures of Federal Awards	36
Note to Schedule of Expenditures of Federal Awards	37
Schedule of Findings and Questioned Costs	38-47
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings	48
Corrective Action Plan	49-57
Exit Conference	58
Official Response	59-66

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President of the School Board	Richard Comer	07-01-08 to 06-30-11
Treasurer of the School Board	LaCrecia Lott	07-01-08 to 06-30-11
Contracted Treasurer	Kathy Schmidt	07-01-08 to 06-30-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE ASPIRE CHARTER ACADEMY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Aspire Charter Academy (Academy), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The Academy's financial statements reported receipts and disbursements as of and for the years ended June 30, 2009 and 2010, were \$2,276,772 and \$640,925, respectively, greater than what was posted to the Academy's general ledger. The amounts were noted as contributions from National Heritage Academies; however, entries were not recorded in the Academy's general ledger to support the totals.

As discussed in Note I, the Academy prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for the adjustments, if any, had the proper entries been made to the Academy's general ledger to support the financial statements reported receipts and disbursements, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of June 30, 2009 and 2010, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 9, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. However, our audit was limited in our scope to issue an opinion as to whether the Academy complied with certain laws, regulations, contracts, grant agreements, and other matters.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Academy has not presented Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The Combining Schedules, as listed in the Table of Contents and the Schedule of Capital Assets, are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The Academy's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Academy's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

March 9, 2011



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF THE ASPIRE CHARTER ACADEMY, LAKE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Aspire Charter Academy (Academy), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 9, 2011. The opinions to the financial statements were qualified due to reported financial statements not supported by the Academy's general ledger by amounts we considered material to the financial statements and underlying supporting documentation. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2010-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2010-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1.

The Academy's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Academy's management, School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 9, 2011

ASPIRE CHARTER ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010

The discussion and analysis of Aspire Charter Academy's (the "School Corporation") financial performance provides an overall review of the School Corporation's financial activities through June 30, 2010. The intent of this discussion and analysis is to look at the School Corporation's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School Corporation's financial performance.

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

Financial Highlights

For the fiscal years ended June 30, 2010 and 2009, total unrestricted net assets, representing cash and investments, were \$34,806 and \$24,115, respectively.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Cash and Investments, a Statement of Activities and Net Assets, and a Statement of Receipts, Disbursements, and Cash and Investment Balances.

Reporting the Academy as a Whole

One of the most important questions asked about the School Corporation is, "As a whole, what is the School Corporation's financial condition as a result of the year's activities?" The Statement of Cash and Investments and the Statement of Activities and Net Assets, which appear first in the School Corporation's financial statements, report information on the School Corporation as a whole and its activities in a way that helps you answer this question. We prepare these statements using the cash basis of accounting.

These two statements report the School Corporation's net assets – as one way to measure the School Corporation's financial health or financial position. Over time, increases or decreases in the School Corporation's cash and net assets – as reported in the Statement of Cash and Investments – are indicators of whether its financial health is improving or deteriorating. The relationship between receipts and disbursements is the School Corporation's operating results. However, the School Corporation's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the School Corporation.

The Statement of Cash and Investments and the Statement of Activities and Net Assets report the activities for the School Corporation, which encompass all the School Corporation’s services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

The School Corporation has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the School Corporation operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the School Corporation from all revenue sources.

The table below provides a summary of the School Corporation’s cash and investments for fiscal years ended June 30:

	2010	2009
Assets:		
Current assets	\$ <u>34,806</u>	\$ <u>24,115</u>
Total assets	34,806	24,115
Net assets:		
Unrestricted	<u>34,806</u>	<u>24,115</u>
Total net assets	<u>\$ 34,806</u>	<u>\$ 24,115</u>

The results of the current year operations for the School Corporation as a whole are reported in the Statement of Activities and Net Assets, which shows the change in net assets.

Statement of Activities and Net Assets

The table below shows the changes in net assets as well as a listing of receipts and disbursements for the fiscal years ending June 30:

	2010	2009
Receipts:		
Other local sources	\$ 657,160	\$ 2,288,790
Operating grants and contributions	1,329,217	1,650,789
Charges for services	18,854	17,691
State aid	3,582,260	1,373,176
Grants and contributions not restricted to specific programs	117,153	105,932
Total Receipts	<u>5,704,644</u>	<u>5,436,378</u>
Disbursements:		
Contracted service fee	5,671,905	5,404,094
Support Services	22,048	8,169
Total Disbursements	<u>5,693,953</u>	<u>5,412,263</u>
Change in net assets	<u>\$ 10,691</u>	<u>\$ 24,115</u>

As reported in the Statement of Activities and Net Assets, the cost of business activities for the years ended June 30, 2010 and 2009 was \$5,671,905 and \$5,436,378, respectively. These activities were primarily funded by the School Corporation's state aid (based on student count), property taxes and governments and organizations that subsidized certain programs with grants.

Capital Assets—At June 30, 2010, the School Corporation had \$145,493 invested in capital assets with purchases utilizing Board funds and federal grants. The assets were accounted for as capital outlay disbursements upon acquisition. Capital assets are substantially provided as part of the agreement with NHA.

General Economic Factors

The School Corporation depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the School Corporation in 2011.

Contacting the School Corporation's Financial Management

The financial report is designed to provide users of the report with a general overview of the School Corporation's finances and to demonstrate the School Corporation's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512.

ASPIRE CHARTER ACADEMY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:				
Management contract service fee	\$ 5,404,094	\$ 17,691	\$ 1,650,789	\$ (3,735,614)
Support services	8,169	-	-	(8,169)
Total governmental activities	<u>\$ 5,412,263</u>	<u>\$ 17,691</u>	<u>\$ 1,650,789</u>	<u>(3,743,783)</u>
General receipts:				
Other local sources				2,288,790
State aid				1,373,177
Grants and contributions not restricted to specific programs				105,931
Total general receipts				3,767,898
Change in net assets				24,115
Net assets - beginning				-
Net assets - ending				<u>\$ 24,115</u>
<u>Assets</u>				
Cash and investments				<u>\$ 24,115</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 24,115</u>

The notes to the financial statements are an integral part of this statement.

ASPIRE CHARTER ACADEMY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:				
Management contract service fee	\$ 5,671,905	\$ 18,854	\$ 1,329,217	\$ (4,323,834)
Support services	<u>22,048</u>	<u>-</u>	<u>-</u>	<u>(22,048)</u>
Total governmental activities	<u>\$ 5,693,953</u>	<u>\$ 18,854</u>	<u>\$ 1,329,217</u>	<u>(4,345,882)</u>
General receipts:				
Other local sources				657,160
State aid				3,582,260
Grants and contributions not restricted to specific programs				<u>117,153</u>
Total general receipts				<u>4,356,573</u>
Change in net assets				10,691
Net assets - beginning				<u>24,115</u>
Net assets - ending				<u>\$ 34,806</u>
<u>Assets</u>				
Cash and investments				<u>\$ 34,806</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 34,806</u>

The notes to the financial statements are an integral part of this statement.

ASPIRE CHARTER ACADEMY
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	<u>General</u>	<u>Other</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 2,288,790	\$ 17,691	\$ 2,306,481
State sources	1,479,108	174,355	1,653,463
Federal sources	<u>-</u>	<u>1,476,434</u>	<u>1,476,434</u>
Total receipts	<u>3,767,898</u>	<u>1,668,480</u>	<u>5,436,378</u>
Disbursements:			
Current:			
Management contract service fee	3,735,614	1,668,480	5,404,094
Support services	<u>8,169</u>	<u>-</u>	<u>8,169</u>
Total disbursements	<u>3,743,783</u>	<u>1,668,480</u>	<u>5,412,263</u>
Excess (deficiency) of receipts over disbursements	<u>24,115</u>	<u>-</u>	<u>24,115</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 24,115</u>	<u>\$ -</u>	<u>\$ 24,115</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 24,115</u>	<u>\$ -</u>	<u>\$ 24,115</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 24,115</u>	<u>\$ -</u>	<u>\$ 24,115</u>

The notes to the financial statements are an integral part of this statement.

ASPIRE CHARTER ACADEMY
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	<u>General</u>	<u>Other</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 657,160	\$ 18,854	\$ 676,014
State sources	3,699,413	31,225	3,730,638
Federal sources	<u>-</u>	<u>1,297,992</u>	<u>1,297,992</u>
Total receipts	<u>4,356,573</u>	<u>1,348,071</u>	<u>5,704,644</u>
Disbursements:			
Current:			
Management contract service fee	4,323,834	1,348,071	5,671,905
Support services	<u>22,048</u>	<u>-</u>	<u>22,048</u>
Total disbursements	<u>4,345,882</u>	<u>1,348,071</u>	<u>5,693,953</u>
Excess (deficiency) of receipts over disbursements	<u>10,691</u>	<u>-</u>	<u>10,691</u>
Cash and investments - beginning	<u>24,115</u>	<u>-</u>	<u>24,115</u>
Cash and investments - ending	<u>\$ 34,806</u>	<u>\$ -</u>	<u>\$ 34,806</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 34,806</u>	<u>\$ -</u>	<u>\$ 34,806</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 34,806</u>	<u>\$ -</u>	<u>\$ 34,806</u>

The notes to the financial statements are an integral part of this statement.

ASPIRE CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Aspire Charter Academy

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Nature of Operation

The charter for the School Corporation was granted on March 5, 2008, by Ball State University. The Board of Directors entered into a Management Agreement (Agreement) with National Heritage Academies, Inc. (NHA), which requires NHA to provide management, operation, administration, accounting, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students. Per the Agreement, NHA leases the facility in which the school operates to the School Corporation. NHA is subject to the oversight and authority of the School Corporation's Board of Directors.

Under the terms of the Agreement, NHA receives all School Corporation revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the school as compensation for management services rendered. The School Corporation retains 2% of state per pupil aid, not to exceed \$35,000, to be used at the discretion of the Board of Directors. The Agreement remains in effect unless at least 90 days written notice of intent to terminate or renegotiate is given by either the School Corporation or NHA.

Ball State University, as the sponsoring organization, exercises certain oversight responsibilities. Under this charter, the School Corporation has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support, which is included in the expenses assumed by NHA as described above. The charter remains in effect until June 30, 2013, and is renewable thereafter by mutual consent.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities.

ASPIRE CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

C. Measurement Focus and Basis of Accounting

The government-wide and governmental fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

ASPIRE CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts.

II. Detailed Notes on All Funds

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2010, the School Corporation had deposit balances in the amount of \$34,886.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

ASPIRE CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Management Contract Service Fee

National Heritage Academies, Inc. (NHA), received as remuneration for its services an amount equal to the total revenue received by the School Corporation from all revenue sources per the agreement (see Note I.A. Nature of Operation). During the 2008-09 and 2009-10 fiscal years, NHA received \$3,127,322 and \$5,030,980, respectively, as their contracted service fee.

C. Start-up Financing/Operating Losses

Per the management agreement, National Heritage Academies, Inc. (NHA), provided pre-operational funds, including funds for the development of a curriculum, technology system and school operations plan; recruiting, selecting and training of staff members; and cleaning, fixing and equipping of the school building. In addition, NHA may make contributions to the School Corporation in the early years of operation in the event expenses exceed revenues. NHA contributions, if any, shall be budgeted and shall be in amounts acceptable to NHA and the Board of Directors. NHA contributions to the School Corporation for the years ended June 30, 2009 and 2010, were \$2,276,772 and \$640,925, respectively.

D. Operating Lease

The School Corporation leases the school facility under an operating lease with National Heritage Academies, Inc. (NHA), which is also under contract to operate and manage the School Corporation. The school facility leased commenced on July 1, 2008, and will continue until June 30, 2013. The lease is subject to renewal at the School Corporation's discretion if notice is given prior to expiration of the current lease term. Lease expense under this operating lease for the years ended June 30, 2009 and 2010, were \$955,840, annually.

Annual future minimum lease obligations for the years ended June 30, 2011, 2012, and 2013, are \$955,840 per year. Rent is included in the expenses assumed by NHA under the management agreement (see Note I.A. Nature of Operation) so long as the agreement is in effect.

ASPIRE CHARTER ACADEMY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2009

	School Lunch	Textbook Rental	Title I	Special Education	Planning and Implementation Grant 08/09	Fiscal Stabilization	Totals
Receipts:							
Local sources	\$ 15,288	\$ 2,403	\$ -	\$ -	\$ -	\$ -	\$ 17,691
State sources	-	174,355	-	-	-	-	174,355
Federal sources	152,335	-	501,362	29,100	517,600	276,037	1,476,434
Total receipts	<u>167,623</u>	<u>176,758</u>	<u>501,362</u>	<u>29,100</u>	<u>517,600</u>	<u>276,037</u>	<u>1,668,480</u>
Disbursements:							
Current:							
Management contract service fee	<u>167,623</u>	<u>176,758</u>	<u>501,362</u>	<u>29,100</u>	<u>517,600</u>	<u>276,037</u>	<u>1,668,480</u>
Total disbursements	<u>167,623</u>	<u>176,758</u>	<u>501,362</u>	<u>29,100</u>	<u>517,600</u>	<u>276,037</u>	<u>1,668,480</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - beginning	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ASPIRE CHARTER ACADEMY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010

	School Lunch	Textbook Rental	Title I	Special Education	Planning and Implementation Grant 08/09	Planning and Implementation Grant 09/10
Receipts:						
Local sources	\$ 16,724	\$ 2,130	\$ -	\$ -	\$ -	\$ -
State sources	327	30,898	-	-	-	-
Federal sources	<u>257,827</u>	<u>-</u>	<u>454,621</u>	<u>44,872</u>	<u>28,347</u>	<u>146,893</u>
Total receipts	<u>274,878</u>	<u>33,028</u>	<u>454,621</u>	<u>44,872</u>	<u>28,347</u>	<u>146,893</u>
Disbursements:						
Current:						
Management contract service fee	<u>274,878</u>	<u>33,028</u>	<u>454,621</u>	<u>44,872</u>	<u>28,347</u>	<u>146,893</u>
Total disbursements	<u>274,878</u>	<u>33,028</u>	<u>454,621</u>	<u>44,872</u>	<u>28,347</u>	<u>146,893</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ASPIRE CHARTER ACADEMY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010
 (Continued)

	Drug Free Schools	Fiscal Stabilization	Title I Stimulus	Special Education Stimulus	Totals
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 18,854
State sources	-	-	-	-	31,225
Federal sources	22,355	90,835	220,407	31,835	1,297,992
Total receipts	<u>22,355</u>	<u>90,835</u>	<u>220,407</u>	<u>31,835</u>	<u>1,348,071</u>
Disbursements:					
Current:					
Management contract service fee	22,355	90,835	220,407	31,835	1,348,071
Total disbursements	<u>22,355</u>	<u>90,835</u>	<u>220,407</u>	<u>31,835</u>	<u>1,348,071</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-
Cash and investments - beginning	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ASPIRE CHARTER ACADEMY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Equipment	<u>\$ 145,493</u>

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS

CONCERNS OVER INTERNAL CONTROLS WITH FINANCIAL TRANSACTIONS AND REPORTING

We noted several weaknesses in the internal control system of the Aspire Charter Academy (Academy) related to financial transactions and reporting. The Academy did not have proper internal controls in place in order to provide reasonable assurance of the financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Additionally, proper internal controls were not in place to mitigate the risk of improper activities either due to error or fraud. Our concerns over the internal control structure were all due to a management agreement entered into by the Academy with National Heritage Academies, Inc. (NHA), and the lack of oversight by the Academy on the activities of NHA for the operation of the Academy. Accordingly, as described below, we have the following concerns:

- Oversight of Management Contract Concerns
- Financial Reporting Concerns for Aspire Charter Academy
- General Ledger Concerns for Aspire Charter Academy (As maintained by NHA)
- Cash Receipt Concerns for Aspire Charter Academy
- Qualification of an Opinion over Receipts and Disbursements
- Federal Awards Concerns
- Disclaimer of an Opinion Over the Compliance of the Major Programs

Oversight of Management Contract Concerns

The legal charter documents for the Aspire Charter Academy (Academy) were granted on March 5, 2008, by Ball State University. The Academy's Board of Directors entered into a comprehensive Management Agreement (Agreement) with National Heritage Academies, Inc. (NHA), a private entity, which requires NHA to provide management, operation, administration, accounting, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students attending the Academy. NHA is a for-profit Michigan corporation and not a division or part of the Academy. The relationship created by the agreement is that of an independent contractor and not employer/employee. NHA is subject to the oversight and authority of the Academy's Board of Directors. The Agreement remains in effect unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the Agreement, NHA receives all of the Academy's revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the School as compensation for management services rendered. The Academy retains 2% of State per pupil aid, not to exceed \$35,000, to be used at the discretion of the Board of Directors. NHA shall keep accurate financial records pertaining to NHA's operation of the Academy, together with all Academy financial records prepared by or in possession of NHA, and shall retain all of the said records according to applicable state and federal requirements to which such books, accounts, and records relate.

The Academy established two bank accounts, entitled "board" and "general", which were maintained by NHA. The first bank account, designated as the "board" account, deposits transfers from NHA for the 2% of State per pupil aid, not to exceed \$35,000 to be used at the discretion of the Academy's Board of Directors. Per the Agreement, \$32,283 and \$32,389 for 2008/2009 and 2009/2010, respectively, were received in the "board" account. Disbursements made from the Board bank account were based on School Board decisions as evidenced in the Board minutes. We were able to adequately audit these disbursements; however, those disbursements made up only \$30,217, which was an immaterial amount in relation to the disbursements presented in the financial statements.

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

The second "general" bank account is used to receive the Academy's state and federal grants via electronic funds transfer from the State of Indiana and any local sources collected at the Academy and deposited. All collections deposited to the "general" bank account are then immediately electronically withdrawn by NHA from the Academy's "general" bank account to NHA as the management contract service fees. An invoice was not provided by NHA to document amounts paid for services rendered. According to the Agreement, all monies received are to be disbursed to NHA. NHA has access to the Academy's bank account; therefore, the money is electronically transferred from the Academy's bank accounts without any oversight of the Academy itself.

According to the Agreement, for the contract service fee provided, NHA is responsible to pay all costs related to the operation of the Academy and provide the School Board with monthly, quarterly and annual accounting reports. The School Board minutes indicated that quarterly reports were received from NHA and reviewed; however, there was no other indication of oversight of how NHA is disbursing the Academy's funds paid to them in accordance with the contract. The quarterly reports presented were balance sheets and income statements based on NHA expenditures and were presented on an accrual basis. The reports did not provide detailed information regarding receipts and disbursements of funds made by NHA related to the operation of the Academy.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Financial Reporting Concerns for Aspire Charter Academy

According to the Agreement, NHA is responsible for complying with all laws and regulations in reporting for the State of Indiana which would include, but not be limited to, complying with the State Board of Accounts prescribed form of accounting as well as providing the Department of Education (DOE) with accurate financial information for the Academy. The Academy's financial records were maintained electronically by NHA on a modified accrual basis of accounting using the same computerized accounting system as NHA. NHA maintains a separate general ledger for each school managed.

According to an Indiana Department of Education (DOE) memorandum dated June 17, 2009, to School Corporation/Charter School Treasurers/Business Managers, "The Biannual Financial Report (Form 9) is the basis for information requested by local, state, and federal educators and others for use in planning the management of school finances. The information furnished must be accurate, complete, and reflect the detailed sources of revenue and type of expenditures in exact dollars and cents." The DOE requires all school corporations, including Charter Schools, to complete a biannual financial report as of June 30 and December 31 of each year.

The Form 9 submitted to the DOE was provided to us for audit and appeared to have the detail of operations by fund and disbursement classifications comparable to other school corporations. However, we identified that the information had several issues when compared to the general ledger presented for audit. The Form 9 submitted as of June 30, 2009 and 2010, included \$2,276,772 and \$640,925,

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

respectively, of contributions to the Academy by the management company; however, the contribution was not recorded in the Academy's general ledger. The Academy's general ledger is not maintained by fund, nor is the prescribed accounting numbers used to record receipts by classification. Additionally, the classifications of disbursements on the Form 9 submitted to the DOE did not agree to the classifications presented in the general ledger submitted for audit.

We inquired to NHA about these differences and they supplied us with new financial statements in which NHA abstracted the bank activity of the Academy showing total money received and disbursed to NHA per the Academy's bank activity. As indicated in the preceding section, all monies received by the Academy were disbursed to NHA according to the Agreement; therefore, reporting all disbursements as management contracted services is the financial activity for the Academy per the Agreement and the General Ledger. Any detail provided to the DOE in regards to disbursements spent for the actual operations of the School are disbursements of NHA. The Academy would not provide us any additional information in regards to detailed disbursements for the operation of the Academy in order for us to determine or to recommend audit adjustments to accurately present the financial information comparable with other school corporations in the State of Indiana.

Additionally, we requested the aforementioned information from NHA; however, NHA would not provide us access to their records in order to present the financial information for the operation of the Academy in the same fashion as other school corporations in the State of Indiana. The Academy did not have controls in place to ensure that NHA is complying with the management contract and appropriately following all laws and regulations. Furthermore, the Academy did not have any documentation or procedures in place to be able to provide detailed accounting information for the actual operation of the School that would allow for comparability with other school corporations in the State of Indiana. The Form 9 activity provided to DOE is the activity of NHA, a private company. The Academy's general ledger does not support any other activity other than showing all as "contracted services". No other source documents exist at the Academy that could provide a comparable breakdown of Instruction, Support Services, etc., which detailed information is only available through the fundamental records of NHA. NHA is a private entity for which the State Board of Accounts does not have the authority to audit.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IC 20-39-1-1 states: "All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

General Ledger Concerns for Aspire Charter Academy (As Maintained by NHA)

NHA did provide for audit the general ledger for the Academy, showing revenues received and money being disbursed out for contracted services. We found that the ledger was not auditable due to the lack of detail on postings and accrual and cash transactions commingled. The general ledger presented for audit was not maintained by fund and had multiple cash and accrual transactions

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

commingled to the point that that we could not indicate that the cash receipts and disbursements presented in the financial statements was an accurate reflection of the cash activity of the Academy. We noted in many cases, the transaction postings were not descriptive enough to determine cash from accrual entries and were commonly referred to as "summarized transaction".

Separate "units" were maintained within the general ledger which are basically separate revenue categories. Units were maintained for the "Board" discretionary funds and each type of federal grant (Title I, Title V, etc). Disbursements were only posted to the "Board" unit for the amounts spent out of the Academy's board bank account and the "Aspire Charter Academy" unit as a single line item for contracted services based on the amounts transferred to NHA. Disbursements were not posted in the ledger against any federal grant units as these are simple revenue categories and not "Funds". The only unit that reports a cash balance is the "Board" unit which was the cash balance reported in the financial statements and agrees with the amount of cash in the board bank account.

Fund accounting on a cash basis is required in reporting to the Department of Education. Additionally, auditable financial records that would support the financial activity of the Academy submitted to DOE was required in order to allow for the State Board of Accounts to express an opinion on the accuracy of the financial information. The Academy did not have proper controls in place that would enable them to ensure that NHA is complying with all laws and regulations of the State of Indiana as required by their contract.

IC 20-39-1-1 states: "All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Cash Receipt Concerns for Aspire Charter Academy

Due to the manner in which the general ledger was maintained and receipts are not issued at the time of collection, we were not able to verify that all cash entries posted to the general ledger were accurately reported in the financial statements. The receipts reported in the financial statements as presented were compiled by NHA based on the bank account activity of the Academy. Additionally, NHA had to add amounts for the Academy monies that were directly deposited into NHA's bank account instead of the Academy's bank account. Collections at the school building for 2008-2009 and 2009-2010 totaling \$29,709 and \$1,266, respectively, were deposited directly into NHA's bank account instead of the Academy's bank account. These collections were included in the general ledger provided; however, based on the manner in which the general ledger was maintained, we were not able to identify that the cash statements provided did not include these cash receipts. Also, appropriate source documents were not provided for audit in order to verify these receipts as added by NHA. Finally, we considered the aforementioned to be a major control risk that receipts as reported were not accurate based on the fact that we did not have access to NHA bank activity or accounting records and could not identify if other Academy deposits were inaccurately deposited into NHA's bank account.

The Academy receives electronic funds transfer (EFT's) from the State of Indiana for various state and federal distributions and grants as well as local sources for textbook rental, school lunch collections, and other miscellaneous collections. However, receipts are not issued for any state or federal distributions received or any other deposits made as the source documentation for the general ledger posting. Generic, non-prescribed receipt books purchased from a local store were used at the school building for various types of collections, but were not used for all collections.

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

The Academy did not have controls in place that ensures all monies provided for the operation of the Academy are properly receipted and posted to the Academy's ledger as well as deposited into the Academy's bank account. The Academy has relinquished their responsibilities of accounting for the money and is paying a contracted service fee to NHA to appropriately account for the monies; however, controls were not in place at the school level that ensures NHA is accurately accounting for these monies. The Academy did not have an understanding of the sources of revenue that were to be deposited into their bank account nor did they have an understanding of what should be deposited into their bank account. Therefore, they did not have established controls that would prohibit money being deposited directly into NHA's bank account without the Academy being aware of the error.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IC 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . ."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Qualification of Opinion Over Receipts and Disbursements

The concerns noted in the financial reporting section resulted in a qualification of an opinion, due to a scope limitation, on the financial statements presented. The financial statements presented do not materially agree with the Academy's general ledger. The total receipts and disbursements reported were \$2,276,772 and \$640,925 greater than what was recorded in the Academy's general ledger for the years ending June 30, 2009 and 2010, respectively. The amounts in excess of what was recorded were simply described as NHA contributions. We were unable to verify the validity of the contributions by NHA.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

Federal Awards Concerns

NHA applied for federal awards on behalf of the Academy and managed all aspects of those federal awards. The federal grant draw downs were electronically deposited into the Academy's bank account and almost immediately electronically transferred by NHA to NHA's bank account as the Academy's contracted services fees. NHA recorded the grant funds received in the Academy's general ledger as separate revenue categories. However, separate grant disbursements or cash balances are not maintained for each federal program because NHA did not maintain the Academy's ledger on the fund accounting basis. The Academy's general ledger included only one line item for disbursements described as contracted service fees.

NHA did provide reports to us from their records for the federal programs. According to the representatives of NHA, separate cost centers were maintained to track the expenditures of each federal award. The cost centers were based on accrual accounting and reflected the expenditures of NHA. Reports submitted to oversight agencies, as well as the original Schedule of Federal Expenditures (SEFA) submitted to us for audit was based on the activity included in NHA's records not the actual disbursements made by the Academy.

The actual disbursements made by the Academy, as reflected in the financial statements presented and the Academy's general ledger reflects that all grant collections received were disbursed to NHA for contracted service fees. We were advised by the federal oversight agency that the federal disbursements reported on the SEFA cannot be outside the Academy's records. The disbursements presented on the SEFA need to be the disbursements of the school academy. Therefore, we requested that NHA recompile the SEFA to indicate the actual activity of the Academy, showing all federal grants received as being disbursed. These adjustments were made to the SEFA and presented within and provided for audit.

The process for federal awards described above indicates several deficiencies in internal control for the Academy. First, the Academy has very little oversight of the federal grants applied for and received. Secondly, the Academy provides all of these federal grants to a private vendor for contracted service fees and has very little to no oversight on how the federal monies are being spent. According to the contract, NHA is required to follow all federal requirements; however, nothing was provided for audit that indicates that the Academy has procedures and controls in place that would ensure that NHA is complying with all laws and regulations, including expending the federal funds for allowable activities in accordance with grant compliance guidelines.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana,

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Disclaimer on Compliance Over Major Programs

Based on the information presented above for federal awards and guidance from the federal oversight agency, a disclaimer of opinion was given in regards to compliance over the major programs audited. The Indiana State Board of Accounts has the responsibility to audit the Academy for compliance with Federal regulations pertaining to federal funding received and expended by the Academy. Our audit responsibility does not extend to NHA, a for-profit corporation based in the State of Michigan. As described above, all transactions relating to federal funding received in the name of the Academy is received and disbursed by NHA. We were unable to perform auditing procedures to determine if the Academy was in compliance with federal compliance requirements. The Academy did not provide us with all necessary documentation to support compliance with federal laws and regulations pertaining to their federal awards. Therefore, we are unable to express an opinion as to whether or not the Academy complied in all material respects with federal guidelines as mandated. Accordingly, all federal expenditures reported on the Schedule of Federal Expenditures were considered to be questioned costs.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Management Agreement – Internal Revenue Service

The management agreement previously discussed also raises many concerns regarding compliance with Internal Revenue Service (IRS) guidelines, in particular when reviewing the IRS manual 4.76.8.8.2 for examiners.

A. The information presented for audit indicates the management agreement entered into has delegated the School Board's duties to NHA. We were presented very little evidence of oversight by the School Board of the School's operations. All of these responsibilities have been delegated to NHA, with only limited oversight from the School Board.

The IRS manual states in part: ". . . A charter school board of directors composed of parents, teachers and community leaders provides structural independence. A board appointed or dominated by a comprehensive management company raises questions as to whether the school will be operated for the benefit of the management company. The examiner should determine whether a structurally independent board is involved in active oversight of the school's operations or whether the board has delegated its duties and responsibilities to the management company."

- (1) The current contract in place between NHA and Aspire does not have an expiration date, which could cause a concern about the School Board's ability to monitor and evaluate the management company's performance.

Per the IRS manual: "Length of Contract - A contract's length can greatly influence the board's ability to monitor and evaluate the management's performance."

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) Based on the evidence presented for audit, all activities concerning the operation and management of the charter school were contracted away to NHA. The Aspire Board of Directors only has authority on how to spend the \$35,000 of revenues allocated back to them by NHA. NHA has authority of all expenditures related to the operations of the School Corporation without oversight or approval of the School Board. School Board minutes and inquiry to School Board Officials indicate very little oversight by Aspire on the actual operation and management of the Charter School.

Per the IRS manual: "Board Policies - The general policies concerning the operation and management of a charter school should not be contracted away. These board policies help define the school's identity."

- (3) The management contract entered into by Aspire with NHA does indicate that the fee for services will be the total income received by the Academy as previously explained above within the Oversight of Management Contract Concerns comment. However, we were not provided any information for audit which would allow us to determine if the management fee remitted was reasonable or commensurate with the services provided.

Per the IRS manual: "Compensation - management fees must be reasonable and commensurate with the services provided. A management fee structure should not be based on total income (i.e., all fees, grants, contributions, and unusual receipts). Compensation should not be above the market rate generally charged for the service provided. This can be established through evidence of comparative shopping for services."

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Prescribed Forms

The following prescribed or approved forms were not always in use:

Accounts Payable Voucher - Form 523
Check in Duplicate - Form 509
Receipt in Duplicate - Form 517
Official Receipt - Individual Textbook Rental list - Form TBR-2
Fund Ledger and Ledger of receipts - Form 508

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Board Disbursements

Under the terms of the Agreement, the Academy retains 2% of State per pupil aid, not to exceed \$35,000, to be used at the discretion of the Board of Directors. The following deficiencies were noted during the review of the supporting documentation for all 40 checks posted as board disbursement activity during the audit period:

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

1. Accounts Payable Vouchers (Form 523) were not prepared for any of the disbursements.
2. Two payments for hotel expenses totaling \$3,305 were paid to National Heritage Academies (NHA) based upon reservation confirmations and not invoices.
3. All disbursements did not have board approval evidenced through the certification of the Accounts Payable Vouchers or a Register of Accounts Payable Vouchers before payment was made.
4. Check Number 103, dated March 9, 2009, reimbursed Richard Comer, Board President, for the board sponsored retreat/strategic planning session held at Gamba Ristorante for \$529.22. Of that total, \$40 was reimbursed for the purchase of alcoholic beverages.
5. The Board approved on January 6, 2010, the expenditure of board funds not to exceed \$750 for the purchase of gas cards for board members. Check Number 122 on February 17, 2010, reimbursed Sylvia Diaz \$750 for the purchase of 5 - \$150 gas cards from Pilot Travel Centers.

IC 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

Purchases of alcoholic beverages may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The Mileage Claim (General Form 101) is designed to serve as a claim for mileage reimbursement to be presented to the school board for allowance. Administrators, teachers and other employees may be reimbursed for actual miles traveled in their own motor vehicles on official business of the school corporation at a reasonable rate per mile as fixed by a resolution of the school board. Reimbursement mileage shall not include travel to and from the employee's home and place of employment. If two or more persons ride in the same motor vehicle, only one mileage reimbursement is allowable. The odometer reading columns on the form are to be used only when distance between points cannot be determined by fixed mileage or official state highway map. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

Receipt Issuance and Untimely Deposits

The fees for school lunch, text book rental, and lost items as well as any school fundraising and field trip charges are collected at the Academy. The school secretary receives the collections, completes the deposit slip, and makes the deposit to the Academy's bank account. The following weaknesses in controls over the receipting and depositing were noted:

1. The receipts in use were not the prescribed Receipt Form SA-3, Official Receipts - Individual Textbook Rental List School Form TBR-2 (when applicable) or an approved receipt. The receipts used were in duplicate; however, the receipts were not pre-numbered.
2. Only textbook rental fees and lost item fees for 2009-2010, were receipted. Receipts were not issued for any other type of collection such as fundraising, field trip, or school lunch collections.
3. From April to June 2010, deposits were not made timely. Collections were held anywhere from 7 to 27 days after the initial collection based on the supporting documentation attached to the deposit slip.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IC 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

Textbook Reimbursement Claims

Each November, school corporations can complete a claim form for free textbook reimbursement to be paid from the State's Textbook Reimbursement Contingency Fund. Per the State's instruction, the Total Cost of Textbooks (column 3) is the cost of each textbook for all eligible students at the appropriate grade level. Therefore, the total cost reported is the product of the number of eligible students (column 2) multiplied by the cost of textbooks for a grade. The Total Cost of Textbooks is then multiplied by 20% to compute the Total Textbook Entitlement (column 4). Additionally, school corporations can claim 100% of the Cost of Consumable Textbooks and Workbooks (column 5) since these items are used by students for no more than one school year. The sum of the Total Textbook Entitlement (column 4) and the Consumable Textbooks and Workbooks (column 5) is the Total Amount Claimed for reimbursement.

The Academy's claim for textbook reimbursement for 2008-2009 showed \$178,725.33 as the cost of Consumable Textbooks and Workbooks (column 5) for all grades (K -5) and was reimbursed at \$174,355.44 by the State. The Academy's 2009-2010 claim showed the same \$178,725.33 for grades K - 6, but as the Total Cost of Textbooks (column 3), even though the eligible student counts per grade changed from 2008-2009 to 2009-2010. The \$178,725.33 for 2009-2010 was prorated by 20% and the total claimed for reimbursement was \$35,745.06. The State of Indiana reimbursed the Academy \$30,897.95 for 2009-2010.

ASPIRE CHARTER ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Textbook Rental Fees

The Academy charges and collects textbook rental fees without proper authorization from the School Board. The textbook rental fee was set by the management company.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Collection of Amounts Due

The Academy did not always collect fees for textbook rental from students. Students that were not eligible to receive textbook assistance were charged a textbook rental fee. NHA provided a computer spreadsheet of the amounts owed from students for each school year, however, not all collections were posted to the spreadsheet and any outstanding balance from the previous year was not carried over to the next year.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE ASPIRE CHARTER ACADEMY, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Aspire Charter Academy (Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2009 and 2010. The Academy's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy's management.

Except as discussed in the following paragraph, 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 Corporation'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. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

We were unable to obtain sufficient documentation from the Academy supporting the compliance of the Academy with the Child Nutrition Cluster, Title I, Part A Cluster, State Fiscal Stabilization Fund Cluster, and Charter School Grant regarding all the applicable compliance requirements. In addition, we found that the Academy's oversight responsibility of the management company was insufficient to satisfy ourselves as to the Academy's compliance with those requirements by other auditing procedures as described in item 2010-2.

Since the Academy did not properly monitor the management company as described in the preceding paragraph, and we were unable to apply alternative auditing procedures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Academy's compliance with the requirements of the Child Nutrition Cluster, Title I, Part A Cluster, State Fiscal Stabilization Fund Cluster, and Charter School Grant regarding the Academy's oversight responsibility of the management company that are applicable to each of its other major federal programs for the years ended June 30, 2009 and 2010.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in the Academy's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2010-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2010-2, to be material weaknesses.

The Academy's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Academy's management, School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 9, 2011

ASPIRE CHARTER ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-09	Total Federal Awards Expended 06-30-10
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education Child Nutrition Cluster School Breakfast Program	10.553	FY 2008-09 FY 2009-10	\$ 28,170 -	\$ 4,718 40,009
Total for program			<u>28,170</u>	<u>44,727</u>
National School Lunch Program	10.555	FY 2008-09 FY 2009-10	124,165 -	22,296 190,804
Total for program			<u>124,165</u>	<u>213,100</u>
Total for cluster			<u>152,335</u>	<u>257,827</u>
Total for federal grantor agency			<u>152,335</u>	<u>257,827</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education Title I, Part A Cluster Title I Grants to Local Educational Agencies	84.010	09-9685 10-9685	501,362 -	59,800 394,821
Total for program			<u>501,362</u>	<u>454,621</u>
ARRA Title I Grants to Local Educational Agencies	84.389	FY 2009-10	-	220,407
Total for cluster			<u>501,362</u>	<u>675,028</u>
Special Education Cluster Special Education Grants to States	84.027	FY 2008-09	29,100	44,872
ARRA - Special Education Grants to States, Recovery Act	84.391	33310-226-SN01	-	31,835
Total for cluster			<u>29,100</u>	<u>76,707</u>
State Fiscal Stabilization Fund Cluster ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 2008-09 FY 2009-10	276,037 -	- 90,835
Total for cluster			<u>276,037</u>	<u>90,835</u>
Charter Schools	84.282	FY 2008-09 FY 2009-10	517,600 -	- 175,240
Total for program			<u>517,600</u>	<u>175,240</u>
Improving Teacher Quality State Grants	84.367	09-9615	-	22,355
Total for federal grantor agency			<u>1,324,099</u>	<u>1,040,165</u>
Total federal awards expended			<u>\$ 1,476,434</u>	<u>\$ 1,297,992</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

ASPIRE CHARTER ACADEMY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Aspire Charter Academy (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Disclaimer

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.282	Child Nutrition Cluster Title I, Part A Cluster State Fiscal Stabilization Fund Cluster Charter Schools

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2010-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING/FINANCIAL REPORT MODIFICATIONS

We noted several weaknesses in the internal control system of the Aspire Charter Academy (Academy) related to financial transactions and reporting. The Academy did not have proper internal controls in place in order to provide reasonable assurance of the financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

with laws and regulations. Additionally, proper internal controls were not in place to mitigate the risk of improper activities either due to error or fraud. Our concerns over the internal control structure were all due to a management agreement entered into by the Academy with National Heritage Academies, Inc. (NHA), and the lack of oversight by the Academy on the activities of NHA for the operation of the Academy. Accordingly, as described below, we have the following concerns:

- Oversight of Management Contract Concerns
- Financial Reporting Concerns for Aspire Charter Academy
- General Ledger Concerns for Aspire Charter Academy (As maintained by NHA)
- Cash Receipt Concerns for Aspire Charter Academy
- Qualification of an Opinion over Receipts and Disbursements

Oversight of Management Contract Concerns

The legal charter documents for the Aspire Charter Academy (Academy) were granted on March 5, 2008, by Ball State University. The Academy's Board of Directors entered into a comprehensive Management Agreement (Agreement) with National Heritage Academies, Inc. (NHA), a private entity, which requires NHA to provide management, operation, administration, accounting, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students attending the Academy. NHA is a for-profit Michigan corporation and not a division or part of the Academy. The relationship created by the agreement is that of an independent contractor and not employer/employee. NHA is subject to the oversight and authority of the Academy's Board of Directors. The Agreement remains in effect unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the Agreement, NHA receives all of the Academy's revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the School as compensation for management services rendered. The Academy retains 2% of State per pupil aid, not to exceed \$35,000, to be used at the discretion of the Board of Directors. NHA shall keep accurate financial records pertaining to NHA's operation of the Academy, together with all Academy financial records prepared by or in possession of NHA, and shall retain all of the said records according to applicable state and federal requirements to which such books, accounts, and records relate.

The Academy established two bank accounts, entitled "board" and "general", which were maintained by NHA. The first bank account, designated as the "board" account, deposits transfers from NHA for the 2% of State per pupil aid, not to exceed \$35,000 to be used at the discretion of the Academy's Board of Directors. Per the Agreement, \$32,283 and \$32,389 for 2008/2009 and 2009/2010, respectively, were received in the "board" account. Disbursements made from the Board bank account were based on School Board decisions as evidenced in the Board minutes. We were able to adequately audit these disbursements; however, those disbursements made up only \$30,217, which was an immaterial amount in relation to the disbursements presented in the financial statements.

The second "general" bank account is used to receive the Academy's state and federal grants via electronic funds transfer from the State of Indiana and any local sources collected at the Academy and deposited. All collections deposited to the "general" bank account are then immediately electronically withdrawn by NHA from the Academy's "general" bank account to NHA as the management contract service fees. An invoice was not provided by NHA to document amounts paid for services rendered. According to the Agreement, all monies received are to be disbursed to NHA. NHA has access to the Academy's bank account; therefore, the money is electronically transferred from the Academy's bank accounts without any oversight of the Academy itself.

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

According to the Agreement, for the contract service fee provided, NHA is responsible to pay all costs related to the operation of the Academy and provide the School Board with monthly, quarterly and annual accounting reports. The School Board minutes indicated that quarterly reports were received from NHA and reviewed; however, there was no other indication of oversight of how NHA is disbursing the Academy's funds paid to them in accordance with the contract. The quarterly reports presented were balance sheets and income statements based on NHA expenditures and were presented on an accrual basis. The reports did not provide detailed information regarding receipts and disbursements of funds made by NHA related to the operation of the Academy.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Financial Reporting Concerns for Aspire Charter Academy

According to the Agreement, NHA is responsible for complying with all laws and regulations in reporting for the State of Indiana which would include, but not be limited to, complying with the State Board of Accounts prescribed form of accounting as well as providing the Department of Education (DOE) with accurate financial information for the Academy. The Academy's financial records were maintained electronically by NHA on a modified accrual basis of accounting using the same computerized accounting system as NHA. NHA maintains a separate general ledger for each school managed.

According to an Indiana Department of Education (DOE) memorandum dated June 17, 2009, to School Corporation/Charter School Treasurers/Business Managers, "The Biannual Financial Report (Form 9) is the basis for information requested by local, state, and federal educators and others for use in planning the management of school finances. The information furnished must be accurate, complete, and reflect the detailed sources of revenue and type of expenditures in exact dollars and cents." The DOE requires all school corporations, including Charter Schools, to complete a biannual financial report as of June 30 and December 31 of each year.

The Form 9 submitted to the DOE was provided to us for audit and appeared to have the detail of operations by fund and disbursement classifications comparable to other school corporations. However, we identified that the information had several issues when compared to the general ledger presented for audit. The Form 9 submitted as of June 30, 2009 and 2010, included \$2,276,772 and \$640,925, respectively, of contributions to the Academy by the management company; however, the contribution was not recorded in the Academy's general ledger. The Academy's general ledger is not maintained by fund, nor is the prescribed accounting numbers used to record receipts by classification. Additionally, the classifications of disbursements on the Form 9 submitted to the DOE did not agree to the classifications presented in the general ledger submitted for audit.

We inquired to NHA about these differences and they supplied us with new financial statements in which NHA abstracted the bank activity of the Academy showing total money received and disbursed to NHA per the Academy's bank activity. As indicated in the preceding section, all monies received by the Academy were disbursed to NHA according to the Agreement; therefore, reporting all disbursements as

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

management contracted services is the financial activity for the Academy per the Agreement and the General Ledger. Any detail provided to the DOE in regards to disbursements spent for the actual operations of the School are disbursements of NHA. The Academy could not provide us any additional information in regards to detailed disbursements for the operation of the Academy in order for us to determine or to recommend audit adjustments to accurately present the financial information comparable with other school corporations in the State of Indiana.

Additionally, we requested the aforementioned information from NHA; however, NHA would not provide us access to their records in order to present the financial information for the operation of the Academy in the same fashion as other school corporations in the State of Indiana. The Academy did not have controls in place to ensure that NHA is complying with the management contract and appropriately following all laws and regulations. Furthermore, the Academy did not have any documentation or procedures in place to be able to provide detailed accounting information for the actual operation of the School that would allow for comparability with other school corporations in the State of Indiana. The Form 9 activity provided to DOE is the activity of NHA, a private company. The Academy's general ledger does not support any other activity other than showing all as "contracted services". No other source documents exist at the Academy that could provide a comparable breakdown of Instruction, Support Services, etc., which detailed information is only available through the fundamental records of NHA. NHA is a private entity for which the State Board of Accounts does not have the authority to audit.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IC 20-39-1-1 states: "All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

General Ledger Concerns for Aspire Charter Academy (As Maintained by NHA)

NHA did provide for audit the general ledger for the Academy, showing revenues received and money being disbursed out for contracted services. We found that the ledger was not auditable due to the lack of detail on postings and accrual and cash transactions commingled. The general ledger presented for audit was not maintained by fund and had multiple cash and accrual transactions commingled to the point that that we could not indicate that the cash receipts and disbursements presented in the financial statements was an accurate reflection of the cash activity of the Academy. We noted in many cases, the transaction postings were not descriptive enough to determine cash from accrual entries and were commonly referred to as "summarized transaction".

Separate "units" were maintained within the general ledger which are basically separate revenue categories. Units were maintained for the "Board" discretionary funds and each type of federal grant (Title I, Title V, etc). Disbursements were only posted to the "Board" unit for the amounts spent out of the Academy's board bank account and the "Aspire Charter Academy" unit as a single line item for contracted

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

services based on the amounts transferred to NHA. Disbursements were not posted in the ledger against any federal grant units as these are simple revenue categories and not "Funds". The only unit that reports a cash balance is the "Board" unit which was the cash balance reported in the financial statements and agrees with the amount of cash in the board bank account.

Fund accounting on a cash basis is required in reporting to the Department of Education. Additionally, auditable financial records that would support the financial activity of the Academy submitted to DOE was required in order to allow for the State Board of Accounts to express an opinion on the accuracy of the financial information. The Academy did not have proper controls in place that would enable them to ensure that NHA is complying with all laws and regulations of the State of Indiana as required by their contract.

IC 20-39-1-1 states: "All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Cash Receipt Concerns for Aspire Charter Academy

Due to the manner in which the general ledger was maintained and receipts are not issued at the time of collection, we were not able to verify that all cash entries posted to the general ledger were accurately reported in the financial statements. The receipts reported in the financial statements as presented were compiled by NHA based on the bank account activity of the Academy. Additionally, NHA had to add amounts for the Academy monies that were directly deposited into NHA's bank account instead of the Academy's bank account. Collections at the school building for 2008-2009 and 2009-2010 totaling \$29,709 and \$1,266, respectively, were deposited directly into NHA's bank account instead of the Academy's bank account. These collections were included in the general ledger provided; however, based on the manner in which the general ledger was maintained, we were not able to identify that the cash statements provided did not include these cash receipts. Also, appropriate source documents were not provided for audit in order to verify these receipts as added by NHA. Finally, we considered the aforementioned to be a major control risk that receipts as reported were not accurate based on the fact that we did not have access to NHA bank activity or accounting records and could not identify if other Academy deposits were inaccurately deposited into NHA's bank account.

The Academy receives electronic funds transfer (EFT's) from the State of Indiana for various state and federal distributions and grants as well as local sources for textbook rental, school lunch collections, and other miscellaneous collections. However, receipts are not issued for any state or federal distributions received or any other deposits made as the source documentation for the general ledger posting. Generic, non-prescribed receipt books purchased from a local store were used at the school building for various types of collections, but were not used for all collections.

The Academy did not have controls in place that ensures all monies provided for the operation of the Academy are properly receipted and posted to the Academy's ledger as well as deposited into the Academy's bank account. The Academy has relinquished their responsibilities of accounting for the money and is paying a contracted service fee to NHA to appropriately account for the monies; however, controls were not in place at the school level that ensures NHA is accurately accounting for these monies.

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Academy did not have an understanding of the sources of revenue that were to be deposited into their bank account nor did they have an understanding of what should be deposited into their bank account. Therefore, they did not have established controls that would prohibit money being deposited directly into NHA's bank account without the Academy being aware of the error.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IC 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Qualification of Opinion Over Receipts and Disbursements

The concerns noted in the financial reporting section resulted in a qualification of an opinion, due to a scope limitation, on the financial statements presented. The financial statements presented do not materially agree with the Academy's general ledger. The total receipts and disbursements reported were \$2,276,772 and \$640,925 greater than what was recorded in the Academy's general ledger for the years ending June 30, 2009 and 2010, respectively. The amounts in excess of what was recorded were simply described as NHA contributions. We were unable to verify the validity of the contributions by NHA.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We recommended the Academy Officials establish controls to ensure that the management company complies with the management agreement by maintaining the Academy's ledgers in accordance with the applicable state and federal requirements and that all transactions are posted to the Academy's ledgers and deposited to the Academy's bank account.

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-2, LACK OF GRANTEE OVERSIGHT OF FEDERAL AWARDS/MODIFICATION OF
OPINION OVER COMPLIANCE

Federal Agency: U.S. Department of Agriculture, U.S. Department of Education
Federal Programs: Child Nutrition Cluster, Title I Part A Cluster, State Fiscal Stabilization Fund Cluster,
Charter School Grant
CFDA Numbers: 10.553 & 10.555, 84.010 & 84.389, 84.394, 84.282
Award Numbers: 09-9685, 10-9685
Pass-Through Entity: Indiana Department of Education

The legal charter documents for the Aspire Charter Academy (Academy) were granted on March 5, 2008, by Ball State University. The Academy's Board of Directors entered into a comprehensive Management Agreement (Agreement) with National Heritage Academies, Inc. (NHA), a private entity, which requires NHA to provide management, operation, administration, accounting, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students attending the Academy. NHA is a for-profit Michigan corporation and not a division or part of the Academy. The relationship created by the agreement is that of an independent contractor and not employer/employee. NHA is subject to the oversight and authority of the Academy's Board of Directors. The Agreement remains in effect unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the Agreement, NHA receives all of the Academy's revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the School as compensation for management services rendered. The Academy retains 2% of State per pupil aid, not to exceed \$35,000, to be used at the discretion of the Board of Directors. NHA shall keep accurate financial records pertaining to NHA's operation of the Academy, together with all Academy financial records prepared by or in possession of NHA, and shall retain all of the said records according to applicable state and federal requirements to which such books, accounts, and records relate.

The Academy established two bank accounts, entitled "board" and "general", which were maintained by NHA. The first bank account, designated as the "board" account, deposits transfers from NHA for the 2% of State per pupil aid, not to exceed \$35,000 to be used at the discretion of the Academy's Board of Directors. Per the Agreement, \$32,283 and \$32,389 for 2008/2009 and 2009/2010, respectively, were received in the "board" account. Disbursements made from the Board bank account were based on School Board decisions as evidenced in the Board minutes. We were able to adequately audit these disbursements; however, those disbursements made up only \$30,217, which was an immaterial amount in relation to the disbursements presented in the financial statements.

The second "general" bank account is used to receive the Academy's state and federal grants via electronic funds transfer from the State of Indiana and any local sources collected at the Academy and deposited. All collections deposited to the "general" bank account are then immediately electronically withdrawn by NHA from the Academy's "general" bank account to NHA as the management contract service fees. An invoice was not provided by NHA to document amounts paid for services rendered. According to the Agreement, all monies received are to be disbursed to NHA. NHA has access to the Academy's bank account; therefore, the money is electronically transferred from the Academy's bank accounts without any oversight of the Academy itself.

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

According to the Agreement, for the contract service fee provided, NHA is responsible to pay all costs related to the operation of the Academy and provide the School Board with monthly, quarterly and annual accounting reports. The School Board minutes indicated that quarterly reports were received from NHA and reviewed; however, there was no other indication of oversight of how NHA is disbursing the Academy's funds paid to them in accordance with the contract. The quarterly reports presented were balance sheets and income statements based on NHA expenditures and were presented on an accrual basis. The reports did not provide detailed information regarding receipts and disbursements of funds made by NHA related to the operation of the Academy.

Federal Awards Concerns

NHA applied for federal awards on behalf of the Academy and managed all aspects of those federal awards. The federal grant draw downs were electronically deposited into the Academy's bank account and almost immediately electronically transferred by NHA to NHA's bank account as the Academy's contracted services fees. NHA recorded the grant funds received in the Academy's general ledger as separate revenue categories. However, separate grant disbursements or cash balances are not maintained for each federal program because NHA did not maintain the Academy's ledger on the fund accounting basis. The Academy's general ledger included only one line item for disbursements described as contracted service fees.

NHA did provide reports to us from their records for the federal programs. According to the representatives of NHA, separate cost centers were maintained to track the expenditures of each federal award. The cost centers were based on accrual accounting and reflected the expenditures of NHA. Reports submitted to oversight agencies, as well as the original Schedule of Federal Expenditures (SEFA) submitted to us for audit was based on the activity included in NHA's records not the actual disbursements made by the Academy.

The actual disbursements made by the Academy, as reflected in the financial statements presented and the Academy's general ledger reflects that all grant collections received were disbursed to NHA for contracted service fees. We were advised by the federal oversight agency that the federal disbursements reported on the SEFA cannot be outside the Academy's records. The disbursements presented on the SEFA need to be the disbursements of the school academy. Therefore, we requested that NHA recompile the SEFA to indicate the actual activity of the Academy, showing all federal grants received as being disbursed. These adjustments were made to the SEFA and presented within and provided for audit.

The process for federal awards described above indicates several deficiencies in internal control for the Academy. First, the Academy has very little oversight of the federal grants applied for and received. Secondly, the Academy provides all of these federal grants to a private vendor for contracted service fees and has very little to no oversight on how the federal monies are being spent. According to the contract, NHA is required to follow all federal requirements; however, nothing was provided for audit that indicates that the Academy has procedures and controls in place that would ensure that NHA is complying with all laws and regulations, including expending the federal funds for allowable activities in accordance with grant compliance guidelines.

Disclaimer on Compliance Over Major Programs

Based on the information presented above for federal awards and guidance from the federal oversight agency, a disclaimer of opinion was given in regards to compliance over the major programs audited. The Indiana State Board of Accounts has the responsibility to audit the Academy for compliance with Federal regulations pertaining to federal funding received and expended by the Academy. Our audit responsibility does not extend to NHA, a for-profit corporation based in the State of Michigan. As

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

described above, all transactions relating to federal funding received in the name of the Academy is received and disbursed by NHA. We were unable to perform auditing procedures to determine if the Academy was in compliance with federal compliance requirements. The Academy did not provide us with all necessary documentation to support compliance with federal laws and regulations pertaining to their federal awards. Therefore, we are unable to express an opinion as to whether or not the Academy complied in all material respects with federal guidelines as mandated. Accordingly, all federal expenditures reported on the Schedule of Federal Expenditures were considered to be questioned costs.

EDGAR § 80.40(a) states: "Monitoring by Grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

EDGAR § 80.20 Standards for financial management systems states:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

ASPIRE CHARTER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

- (7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub-grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their sub-grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

(c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a preaward review or at any time subsequent to award."

Failure to comply with federal program requirements and requirements of the state pass-through agency could cause the Academy to forfeit the federal funds already received and could jeopardize the approval of future funding under federal assistance programs.

We recommended the Academy design and implement internal control procedures that will ensure that federal awards comply with the grant requirements and reported as separate funds in the financial records which would provide assurance that the receipts, disbursements, and cash balances were properly reported and that adequate documentation is available to support the financial transactions pertaining to the Academy.

ASPIRE CHARTER ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



Aspire Academy

4900 W. 15th Ave.

Gary, IN 46406

Phone: (219) 750-1152

Fax: (219) 750-1155

www.aspirecharteracademy.org

Corrective Action Plan

Audit Period 07-01-08 to 06-30-10

FINDING NO. 2010-1 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING/FINANCIAL REPORT MODIFICATIONS

CONCERNS OVER INTERNAL CONTROLS REGARDING FINANCIAL TRANSACTIONS AND REPORTING

The Indiana State Board of Accounts (“SBA”) does not appear to recognize the legitimacy of the services agreement between Aspire Academy (“Aspire” or “Academy”) and National Heritage Academies, Inc. (“NHA”). The Board of Aspire performed its due diligence and research on NHA practices at the time of entering into the agreement. The services agreement was reviewed and approved by both parties to the agreement, their attorneys, the State of Indiana, Ball State University (“Authorizer”), the Federal Government in the review of the Academy’s 501c3 application, and other oversight agencies. These various parties all deemed the agreement to be acceptable and in compliance with state law. None of the concerns over internal control mentioned in this audit report have been raised by any of the aforementioned parties. In addition to its initial due diligence, the Board does regular review and approval of school budgets and spending against budgets.

Administration of Aspire by NHA – including administration of a financial management system of accountability for Aspire – pursuant to the services agreement between them is clearly consistent with federal law. Indeed, federal law expressly contemplates the possibility that a public school may be administered by a management company (Section 1116(b)(8)(B) of the Elementary and Secondary Education Act, 20 U.S.C 6316(b)(8)(B); 75 Fed. Reg. 66366 (October 28, 2010)).

NHA, as contractor to Aspire, maintains a financial management system specifically for Aspire in compliance with state and federal law as a service to Aspire. That system has robust internal control practices. NHA receives annual audits from D&T & Touche (“D&T”) and engages D&T to perform annual audits on each of the 57 schools located outside of Ohio. Ohio, like Indiana, performs its own audits through their Auditor of State. To date, all public charter schools partnering with NHA have been successfully audited without receiving a qualified opinion on any of these 67 schools, across 8 different states – including Indiana.

NHA offered to the Aspire Board and to SBA to engage D&T to undertake additional testing of internal controls that would meet the needs of SBA. NHA also offered to provide its internal control report as well as have D&T provide written assurance that the controls in place for NHA overall were applied to Aspire. This is the approach that is used successfully at all other schools partnering with NHA. All offers to provide additional assurance were declined by SBA.

Oversight of Management Contract

We respectfully disagree with this finding. The Board reviews and approves an annual budget and quarterly reports of performance against budget. There is an NHA representative available at Board meetings to answer questions and undertake research on any question that the Board has regarding disbursements. The Board Treasurer is sent the financial statements and reviews the statements ahead of the meeting to allow a detailed review with NHA personnel if necessary. These oversight activities satisfy general state and federal requirements for oversight. SBA cites to no state or federal laws that prescribe specific elements or thresholds for oversight that have not been met for Aspire. Moreover, this method of financial reporting is: a) consistent with the charter, b) met authorizer approval and, c) received an unqualified opinion from Fitzgerald Isaac, an independent auditor engaged by Ball State University to audit the Academy for fiscal year 2009. While the minutes could be stronger, this does not diminish the fact that Aspire is governed by a highly-competent board of community leaders. We take our charge seriously.

Action Plan:

Nevertheless, the Board wishes to resolve this finding on a constructive basis by providing for a greater level of review of financial information than has been done. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) For the years ended June 30, 2011 and after, Aspire has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

To address the finding for the period under audit, the Board has requested that NHA provide the information noted in bullet points 1 & 2 above to the Board at the May 2011 meeting for review.

Financial Reporting

The SBA requested detailed information regarding the operational costs of the school to audit the classifications reported on Form 9. The individual expenditures to operate the school are NHA's (a private company acting as a service provider) according to the services agreement. While NHA declined to allow SBA to audit its records, it did offer to SBA to pay for D&T to audit records and to provide the SBA a report on the classification of the Academy's expenditures. NHA, on behalf of Aspire, also offered to have D&T perform substantive testing of operational expenditures on the SBA's behalf. AU Section 543 provides guidance on how an auditor may rely on another auditor's work. We understand this approach has been used successfully in Ohio where the NHA schools are audited by the Auditor of State. The SBA chose not to apply AU Section 543 to this audit and chose not to request testing from D&T as a basis to form their opinion. We understand the SBA's position on this audit is inconsistent with the SBA

position taken in the Purdue University audit report (B38542), which references reliance on another auditor's work.

The SBA states that NHA would not provide access to records to audit the detailed information regarding operational disbursements. We understand this is partially correct, based on our discussions with NHA. NHA, as a private entity, is not subject to an audit by the SBA. For federal disbursements, NHA, on Aspire's behalf, provided 100% of the detail of operational disbursements for federal awards and supporting documentation for the SBA's selected sample of federal award disbursements. NHA granted access to individual federal disbursement records so that SBA could perform the necessary work for the A133. For non-federal disbursements, NHA offered to the Board and to SBA to have D&T, provide an Agreed Upon Procedures report, which the SBA could rely on as a basis for their audit opinion in accordance with auditing standards (reference AU 543). NHA offered to allow SBA design the tests and design of the Agreed Upon Procedures Report so that it would meet their needs. SBA declined this offer.

SBA notes that contributions to the Academy from NHA were reported on Form 9 but were not reported in the Academy's general ledger. According to the services agreement, NHA may make contributions to the school if the expenditures to operate the school exceed the management fee. In the first two years of the Academy's operation, expenditures exceeded revenue and NHA made a contribution to the school for the difference. The contribution should have been recorded in the Academy's general ledger; if future NHA contributions are made, the contribution will be recorded in the general ledger.

Action Plan:

The Form 9 will continue to be prepared on a cash basis as required by the State.

The contribution from NHA to the Academy will be recorded in the Academy's General Ledger.

The financial statements will be reviewed prior to presenting them to the SBA for audit.

The Board of Aspire will also resolve this finding by providing for a greater level of Board review of financial information than has been done. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) For the years ended June 30, 2011 and after, the Board has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

General Ledger Activity

We respectfully disagree with the finding based on additional information we have received from NHA. The SBA states that they were unable to audit the general ledger due to the lack of detail for individual transaction postings. We have discussed the condition of the general ledger with NHA, and NHA has

informed us that the “Summarized Transaction” reported in the general ledger represents a posting from a subsidiary ledger. This is typical of most mid to large sized accounting systems. NHA has informed us that it was unaware of any request for additional information of the subsidiary ledger postings, and if such a request had been received, it would have been fulfilled.

The SBA states that the general ledger was not maintained by fund and contained numerous cash and accrual transactions commingled to the point that that the SBA could not determine that the cash receipts and disbursements presented in the financial statements were an accurate reflection of the cash activity of the Academy. In accordance with the services agreement, NHA maintains the financial records of the Academy using unique account codes which act as a proxy for fund accounting and result in the same financial tracking and reporting as fund accounting. The financial records of the Academy are maintained on an accrual basis as this provides the Board a more meaningful measurement of economic activity and comparison against Board approved expenditures. As a result, the general ledger detail provided to the SBA was on an accrual basis, and was adjusted (through an accrual to cash adjustment) to the cash basis as required by the State of Indiana. Accurate financial statements were prepared using the books and records.

Action Plan:

Reporting to the State of Indiana and the SBA will be done on a cash basis, by fund, in accordance with Indiana law.

Accounting units for expenditures will be created in the Academy’s general ledger to segregate grant expenditures from the general fund expenditures to comply with the fund accounting requirement.

Cash Receipts

The SBA states that due to the manner in which the general ledger was maintained, cash receipts reported in the financial statements could not be verified. This is inaccurate, as we understand that NHA, on Aspire’s behalf, reconciled the cash basis financial statements to the accrual basis general ledger. The reconciling items were due to the timing of receipts and disbursements and were auditable by the SBA.

The SBA notes that amounts physically collected at the school building were deposited to NHA’s bank account. The SBA will note that this was a comment from a previous audit of Andrew J. Brown Academy, another school that partners with NHA, and after that audit was issued the school building deposited nearly all receipts into the school bank account (the amount deposited to NHA’s account decreased from \$29,709 in 2008-09 to \$1,266 in 2009-10). The receipts collected at the school in the future will be deposited to the school’s bank account. Although there has been significant improvement made since the last audit report, we recognize that this is an area that still requires some attention. It should be noted that these errors were in depositing the funds directly to the NHA account specifically designated for the Academy rather than into the Academy account before transferring over to the NHA account. There was no improper guardianship of funds or misuse of funds.

The SBA states that the supporting documentation was not provided for the receipts deposited to NHA’s bank account. NHA has informed us that it was not made aware of request for the documentation and the documentation (i.e., deposit slips, etc.) would have been provided had it been requested. This should not be noted as an exception.

Action Plan:

The SBA states that receipts should be issued for all monies collected, and that all receipts be documented in a prescribed receipt book. In the future, receipts collected at the school building will be chronologically recorded in a receipt book.

Receipts collected in the future will be deposited into the Academy's bank account, not NHA's.

Based on the finding, the Board will perform additional review of receipt activity. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).

The combination of this information will allow the Board to ensure all revenue of the Academy is deposited into the school's bank account.

Federal Awards

We respectfully disagree with the finding. The Board provides oversight of the federal grant programs, which are transacted by NHA in a similar fashion to non-grant activities, through approval of budgets and monitoring of expenditures against budget. In addition to Board oversight, there is significant federal oversight of these programs and Aspire, through NHA services, is compliant with all federal requirements around federal receipts and expenditures.

Oversight from the Federal Awarding Agencies includes approval of grant applications, approval of the budgets which detail how the funds will be spent, reporting requirements, and monitoring visits to review compliance. Aspire and NHA have been found to be compliant with federal requirements based on this oversight.

The SBA makes note of the disparity between the expenditures of the Academy (which are payments to NHA) and the federal grant expenditures. After discussion with NHA, the Board's understanding is that this disparity is due to a timing difference only. The Academy pays the federal grants received to NHA for pre-approved expenditures made by NHA on the Academy's behalf. Going forward, the State of Indiana is changing its practices and all federal grants will be on a reimbursement basis. As such, the Academy will no longer receive grants from the State without first incurring the expenditures which will eliminate timing differences in the future. The Board has requested that NHA incur all federal grant expenditures on the Academy's behalf, and the funds received by the Academy be used to reimburse NHA for those expenditures.

The SBA states that nothing was provided for audit that indicated the Academy has procedures and controls in place that would ensure NHA complied with applicable laws and regulations, including spending the money on appropriate activities for the Academy. This is not accurate. The Board reviews and approves a budget annually, which includes the amount received for federal grants. The Board

reviews similarly presented financial statements. From the financial information presented, the Board can ensure that 100% of the revenues (including federal revenues) are spent on expenditures of the Academy. Furthermore, we understand that NHA, on Aspire's behalf, provided the SBA 100% of detail of federal grant expenditures and provided the supporting documentation for the auditor's test sample. The SBA had the opportunity to review the procedures and controls in place, and the opportunity to review the federal grant expenditures for compliance with laws and regulations. The SBA elected not to audit those records.

The SBA has disclaimed an opinion on compliance over major programs. The SBA chose not to audit the information provided by NHA, which was sufficient to provide an opinion. The Academy pays NHA based on receipts from the State (in accordance with the services agreement). These payments were reconciled to the actual cash disbursements of federal funds (i.e., payroll, supplies and equipment purchases, etc.). The reconciliation was required due to a timing difference between when NHA made the expenditures on the Academy's behalf and when the State remitted the grant funds to the Academy. The reconciliation was auditable by the SBA. In addition, 100% of the supporting documentation and detail was provided to the SBA of the federal grant expenditures (i.e., payroll, supplies and equipment, etc.). The SBA chose not to audit the information.

Action Plan:

Based on the finding, the Board will perform a greater level of review of federal awards. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) The Board will review the federal grant budgets at a Board Meeting.
- 4) Federal grants passed through IDOE are now on a reimbursement basis. NHA will pay for the federal expenditures on the Academy's behalf prior to the filing of the reimbursement request. After the reimbursement request is processed, the Academy will transfer the funds to NHA in accordance with the services agreement and the Board will review the original reimbursement request and transaction level detail to ensure the fee paid by the Academy to NHA complies with federal compliance requirements.

To address the finding for the period under audit, the Board has requested that NHA provide transaction level detail of the federal expenditures at the May 2011 board meeting.

Invoices and supporting documentation for the federal expenditures are available for audit by the Cognizant Agency upon request.

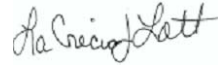
In addition to the actions already proposed in this response, the Board is prepared to take an additional action. If the Cognizant Agency and the School mutually agree that another A-133 audit should be performed by an independent accountant for the period 07-01-08 through 06-30-10, the Board and NHA

would fully support and facilitate an audit. Any invoices and supporting documentation required to support federal expenditures will be made available to the accountant.

Signed:
March 28, 2011



Mr. Richard Comer
Board President
Aspire Academy



Ms. LaCrecia Lott
Board Treasurer
Aspire Academy

Corrective Action Plan

Audit Period 07-01-08 to 06-30-10

FINDING NO. 2010-2 LACK OF GRANTEE OVERSIGHT OF FEDERAL AWARDS/MODIFICATION OF OPINION OVER COMPLIANCE

We respectfully disagree with the finding. The Board provides oversight of the federal grant programs, which are transacted by NHA in a similar fashion to non-grant activities, through approval of budgets and monitoring of expenditures against budget. In addition to Board oversight, there is significant federal oversight of these programs and Aspire, through NHA services, is compliant with all federal requirements around federal receipts and expenditures.

Oversight from the Federal Awarding Agencies includes approval of grant applications, approval of the budgets which detail how the funds will be spent, reporting requirements, and monitoring visits to review compliance. Aspire and NHA have been found to be compliant with federal requirements based on this oversight.

The SBA makes note of the disparity between the expenditures of the Academy (which are payments to NHA) and the federal grant expenditures. After discussion with NHA, the Board's understanding is that this disparity is due to a timing difference only. The Academy pays the federal grants received to NHA for pre-approved expenditures made by NHA on the Academy's behalf. Going forward, the State of Indiana is changing its practices and all federal grants will be on a reimbursement basis. As such, the Academy will no longer receive grants from the State without first incurring the expenditures which will eliminate timing differences in the future. The Board has requested that NHA incur all federal grant expenditures on the Academy's behalf, and the funds received by the Academy be used to reimburse NHA for those expenditures.

The SBA states that nothing was provided for audit that indicated the Academy has procedures and controls in place that would ensure NHA complied with applicable laws and regulations, including spending the money on appropriate activities for the Academy. This is not accurate. The Board reviews and approves a budget annually, which includes the amount received for federal grants. The Board reviews similarly presented financial statements. From the financial information presented, the Board can ensure that 100% of the revenues (including federal revenues) are spent on expenditures of the Academy. Furthermore, we understand that NHA, on Aspire's behalf, provided the SBA 100% of detail of federal grant expenditures and provided the supporting documentation for the auditor's test sample. The SBA had the opportunity to review the procedures and controls in place, and the opportunity to review the federal grant expenditures for compliance with laws and regulations. The SBA elected not to audit those records.

The SBA has disclaimed an opinion on compliance over major programs. The SBA chose not to audit the information provided by NHA, which was sufficient to provide an opinion. The Academy pays NHA based on receipts from the State (in accordance with the services agreement). These payments were reconciled to the actual cash disbursements of federal funds (i.e., payroll, supplies and equipment purchases, etc.). The reconciliation was required due to a timing difference between when NHA made the expenditures on the Academy's behalf and when the State remitted the grant funds to the Academy. The reconciliation was auditable by the SBA. 100% of the supporting documentation and detail was

provided to the SBA of the federal grant expenditures (i.e., payroll, supplies and equipment, etc.). The SBA chose not to audit the information.

Action Plan:

Based on the finding, the Board will perform a greater level of review of federal awards. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) The Board will review the federal grant budgets at a Board Meeting.
- 4) Federal grants passed through IDOE are now on a reimbursement basis. NHA will pay for the federal expenditures on the Academy's behalf prior to the filing of the reimbursement request. After the reimbursement request is processed, the Academy will transfer the funds to NHA in accordance with the services agreement and the Board will review the original reimbursement request and transaction level detail to ensure the fee paid by the Academy to NHA complies with federal compliance requirements.

To address the finding for the period under audit, the Board has requested that NHA provide transaction level detail of the federal expenditures at the May 2011 board meeting.

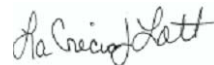
Invoices and supporting documentation for the federal expenditures are available for audit by the Cognizant Agency upon request.

In addition to the actions already proposed in this response, the Board is prepared to take an additional action. If the Cognizant Agency and the School mutually agree that another A-133 audit should be performed by an independent accountant for the period 07-01-08 through 06-30-10, the Board and NHA will fully support and facilitate an audit. Any invoices and supporting documentation required to support federal expenditures will be made available to the accountant.

Signed:
March 28, 2011



Mr. Richard Comer
Board President
Aspire Academy



Ms. LaCrecia Lott
Board Treasurer
Aspire Academy

ASPIRE CHARTER ACADEMY
EXIT CONFERENCE

The contents of this report were discussed on March 23, 2011, with Richard Comer, President of the School Board; LaCrecia Lott, Treasurer of the School Board; Kathy Schmidt, Contracted Treasurer; Laura Kaleefey, National Heritage Academies, Inc., Audit Manager and Cheryl Edwards-Cannon, National Heritage Academies, Inc., Director of Partner Relations. The official response has been made a part of this report and may be found on pages 59 through 66.



Aspire Academy

4900 W. 15th Ave.

Gary, IN 46406

Phone: (219) 750-1152

Fax: (219) 750-1155

www.aspirecharteracademy.org

March 28, 2011

Mr. Bruce Hartman, State Examiner
State Board of Accounts
302 W. Washington Street, Room E418
Indianapolis, IN 46204

Response to Audit Results & Comments

CONCERNS OVER INTERNAL CONTROLS REGARDING FINANCIAL TRANSACTIONS AND REPORTING

The Indiana State Board of Accounts ("SBA") does not appear to recognize the legitimacy of the services agreement between Aspire Academy ("Academy" or "Aspire") and National Heritage Academies, Inc. ("NHA"). The Board of Aspire performed its due diligence and research on NHA practices at the time of entering into the agreement. The services agreement was reviewed and approved by both parties to the agreement, their attorneys, the State of Indiana, Ball State University ("Authorizer"), the Federal Government in the review of the Academy's 501c3 application, and other oversight agencies. These various parties all deemed the agreement to be acceptable and in compliance with state law. None of the concerns over internal control mentioned in this audit report have been raised by any of the aforementioned parties. In addition to its initial due diligence, the Board does regular review and approval of school budgets and spending against budgets.

Administration of Aspire by NHA – including administration of a financial management system of accountability for Aspire – pursuant to the services agreement between them is clearly consistent with federal law. Indeed, federal law expressly contemplates the possibility that a public school may be administered by a management company (Section 1116(b)(8)(B) of the Elementary and Secondary Education Act, 20 U.S.C 6316(b)(8)(B); 75 Fed. Reg. 66366 (October 28, 2010)).

NHA, as contractor to Aspire, maintains a financial management system specifically for Aspire in compliance with state and federal law as a service to Aspire. That system has robust internal control practices. NHA receives annual audits from Deloitte & Touche ("D&T") and engages D&T to perform annual audits on each of the 57 schools located outside of Ohio. Ohio, like Indiana, performs its own audits through their Auditor of State. To date, all public charter schools partnering with NHA have been successfully audited without receiving a qualified opinion on any of these 67 schools, across 8 different states – including Indiana.

NHA offered to the Aspire Board and to SBA to engage D&T to undertake additional testing of internal controls that would meet the needs of SBA. NHA also offered to provide its internal control report as well as have D&T provide written assurance that the controls in place for NHA overall were applied to Aspire. This is the approach that is used successfully at all other schools partnering with NHA. All offers to provide additional assurance were declined by SBA.

Oversight of Management Contract

We respectfully disagree with this finding. The Board reviews and approves an annual budget and quarterly reports of performance against budget. There is an NHA representative available at Board meetings to answer questions and undertake research on any question that the Board has regarding disbursements. The Board Treasurer is sent the financial statements and reviews the statements ahead of the meeting to allow a detailed review with NHA personnel if necessary. These oversight activities satisfy general state and federal requirements for oversight. SBA cites to no state or federal laws that prescribe specific elements or thresholds for oversight that have not been met for Aspire. Moreover, this method of financial reporting is: a) consistent with Aspire's charter, b) met authorizer approval and, c) received an unqualified opinion from Fitzgerald Isaac, an independent auditor engaged by Ball State University to audit the Academy for fiscal year 2009. . While the minutes could be stronger, this does not diminish the fact that Aspire is governed by a highly-competent board of community leaders. We take our charge seriously.

Action Plan as Reported in the A-133:

Nevertheless, the Board wishes to resolve this finding on a constructive basis by providing for a greater level of Board review of financial information. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) For the years ended June 30, 2011 and after, Aspire has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

To address the finding for the period under audit, the Board has requested that NHA provide the information noted in bullet points 1 and 2 above to the Board at the May 2011 meeting for review.

Financial Reporting

The SBA requested detailed information regarding the operational costs of the school to audit the classifications reported on Form 9. The individual expenditures to operate the school are NHA's (a private company acting as a service provider) according to the services agreement. While NHA declined to allow SBA to audit its records, it did offer to SBA to pay for D&T to audit records and to provide the SBA a report on the classification of the Academy's expenditures. NHA, on behalf of Aspire, also offered to have D&T perform substantive testing of operational expenditures on the SBA's behalf. AU Section 543 provides guidance on how an auditor may rely on another auditor's work. We understand this approach has been used successfully in Ohio where the NHA schools are audited by the Auditor of State. The SBA chose not to apply AU Section 543 to this audit and chose not to request testing from D&T as a basis to form their opinion. We understand the SBA's position on this audit is inconsistent with the SBA

position taken in the Purdue University audit report (B38542), which references reliance on another auditor's work.

The SBA states that NHA would not provide access to records to audit the detailed information regarding operational disbursements. We understand this is partially correct, based on our discussions with NHA. NHA, as a private entity, is not subject to an audit by the SBA. For federal disbursements, NHA, on Aspire's behalf, provided 100% of the detail of operational disbursements for federal awards and supporting documentation for the SBA's selected sample of federal award disbursements. NHA granted access to individual federal disbursement records so that SBA could perform the necessary work for the A133. For non-federal disbursements, NHA offered to the Board and to SBA to have D&T provide an Agreed Upon Procedures report, which the SBA could rely on as a basis for their audit opinion in accordance with auditing standards (reference AU 543). NHA offered to allow SBA design the tests and design of the Agreed Upon Procedures Report so that it would meet their needs. SBA declined this offer.

SBA notes that contributions to the Academy from NHA were reported on Form 9 but were not reported in the Academy's general ledger. According to the services agreement, NHA may make contributions to the school if the expenditures to operate the school exceed the management fee. In the first two years of the Academy's operation, expenditures exceeded revenue and NHA made a contribution to the school for the difference. The contribution should have been recorded in the Academy's general ledger; if future NHA contributions are made, the contribution will be recorded in the general ledger.

Action Plan as Reported in the A-133:

The Form 9 will continue to be prepared on a cash basis as required by the State.

The contribution from NHA to the Academy will be recorded in the Academy's General Ledger.

The financial statements will be reviewed prior to presenting them to the SBA for audit.

The Board of Aspire will also resolve this finding by providing for a greater level of Board review of financial information than has been done. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) For the years ended June 30, 2011 and after, the Board has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

General Ledger Activity

We respectfully disagree with the finding based on additional information we have received from NHA. The SBA states that they were unable to audit the general ledger due to the lack of detail for individual transaction postings. We have discussed the condition of the general ledger with NHA, and NHA has

informed us that the “Summarized Transaction” reported in the general ledger represents a posting from a subsidiary ledger. This is typical of most mid to large sized accounting systems. NHA has informed us that it was unaware of any request for additional information of the subsidiary ledger postings, and if such a request had been received, it would have been fulfilled.

The SBA states that the general ledger was not maintained by fund and contained numerous cash and accrual transactions commingled to the point that that the SBA could not determine that the cash receipts and disbursements presented in the financial statements were an accurate reflection of the cash activity of the Academy. In accordance with the services agreement, NHA maintains the financial records of the Academy using unique account codes which act as a proxy for fund accounting and result in the same financial tracking and reporting as fund accounting. The financial records of the Academy are maintained on an accrual basis as this provides the Board a more meaningful measurement of economic activity and comparison against Board approved expenditures. As a result, the general ledger detail provided to the SBA was on an accrual basis, and was adjusted (through an accrual to cash adjustment) to the cash basis as required by the State of Indiana. Accurate financial statements were prepared using the books and records.

Action Plan as Reported in the A-133:

Reporting to the State of Indiana and the SBA will be done on a cash basis, by fund, in accordance with Indiana law.

Accounting units for expenditures will be created in the Academy’s general ledger to segregate grant expenditures from the general fund expenditures to comply with the fund accounting requirement.

Cash Receipts

The SBA states that due to the manner in which the general ledger was maintained, cash receipts reported in the financial statements could not be verified. This is inaccurate, as we understand that NHA, on Aspire’s behalf, reconciled the cash basis financial statements to the accrual basis general ledger. The reconciling items were due to the timing of receipts and disbursements and were auditable by the SBA.

The SBA notes that amounts physically collected at the school building were deposited to NHA’s bank account. The SBA will note that this was a comment from a previous audit of Andrew J. Brown Academy, another school that partners with NHA, and after that audit was issued the school building deposited nearly all receipts into the school bank account (the amount deposited to NHA’s account decreased from \$29,709 in 2008-09 to \$1,266 in 2009-10). The receipts collected at the school in the future will be deposited to the school’s bank account. Although there has been significant improvement made since the last audit report, the Board recognizes that this is an area that still requires some attention. It should be noted that these errors were in depositing the funds directly to the NHA account specifically designated for the Academy rather than into the Academy account before transferring over to the NHA account. There was no improper guardianship of funds or misuse of funds.

The SBA states that the supporting documentation was not provided for the receipts deposited to NHA’s bank account. NHA has informed us that it was not made aware of request for the documentation and the documentation (i.e., deposit slips, etc.) would have been provided had it been requested. This should not be noted as an exception.

Action Plan as Reported in the A-133:

The SBA states that receipts should be issued for all monies collected, and that all receipts be documented in a prescribed receipt book. In the future, receipts collected at the school building will be chronologically recorded in a receipt book.

Receipts collected in the future will be deposited into the Academy's bank account, not NHA's.

Based on the finding, the Board will perform additional review of receipt activity. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).

The combination of this information will allow the Board to ensure all revenue of the Academy is deposited into the school's bank account.

Federal Awards

We respectfully disagree with the finding. The Board provides oversight of the federal grant programs, which are transacted by NHA in a similar fashion to non-grant activities, through approval of budgets and monitoring of expenditures against budget. In addition to Board oversight, there is significant federal oversight of these programs and Aspire, through NHA services, is compliant with all federal requirements around federal receipts and expenditures.

Oversight from the Federal Awarding Agencies includes approval of grant applications, approval of the budgets which detail how the funds will be spent, reporting requirements, and monitoring visits to review compliance. Aspire and NHA have been found to be compliant with federal requirements based on this oversight.

The SBA makes note of the disparity between the expenditures of the Academy (which are payments to NHA) and the federal grant expenditures. After discussion with NHA, the Board's understanding is that this disparity is due to a timing difference only. The Academy pays the federal grants received to NHA for pre-approved expenditures made by NHA on the Academy's behalf. Going forward, the State of Indiana is changing its practices and all federal grants will be on a reimbursement basis. As such, the Academy will no longer receive grants from the State without first incurring the expenditures which will eliminate timing differences in the future. The Board has requested that NHA incur all federal grant expenditures on the Academy's behalf, and the funds received by the Academy be used to reimburse NHA for those expenditures.

The SBA states that nothing was provided for audit that indicated the Academy has procedures and controls in place that would ensure NHA complied with applicable laws and regulations, including spending the money on appropriate activities for the Academy. This is not accurate. The Board reviews and approves a budget annually, which includes the amount received for federal grants. The Board

reviews similarly presented financial statements. From the financial information presented, the Board can ensure that 100% of the revenues (including federal revenues) are spent on expenditures of the Academy. Furthermore, we understand that NHA, on Aspire's behalf, provided the SBA 100% of detail of federal grant expenditures and provided the supporting documentation for the auditor's test sample. The SBA had the opportunity to review the procedures and controls in place, and the opportunity to review the federal grant expenditures for compliance with laws and regulations. The SBA elected not to audit those records.

The SBA has disclaimed an opinion on compliance over major programs. The SBA chose not to audit the information provided by NHA, which was sufficient to provide an opinion. The Academy pays NHA based on receipts from the State (in accordance with the services agreement). These payments were reconciled to the actual cash disbursements of federal funds (i.e., payroll, supplies and equipment purchases, etc.). The reconciliation was required due to a timing difference between when NHA made the expenditures on the Academy's behalf and when the State remitted the grant funds to the Academy. The reconciliation was auditable by the SBA. In addition, 100% of the supporting documentation and detail was provided to the SBA of the federal grant expenditures (i.e., payroll, supplies and equipment, etc.). The SBA chose not to audit the information.

Action Plan as Reported in the A-133:

Based on the finding, the Board will perform a greater level of review of federal awards. The Board has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the Academy's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the Academy's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) The Board will review the federal grant budgets at a Board Meeting.
- 4) Federal grants passed through IDOE are now on a reimbursement basis. NHA will pay for the federal expenditures on the Academy's behalf prior to the filing of the reimbursement request. After the reimbursement request is processed, the Academy will transfer the funds to NHA in accordance with the services agreement and the Board will review the original reimbursement request and transaction level detail to ensure the fee paid by the Academy to NHA complies with federal compliance requirements.

To address the finding for the period under audit, the Board has requested that NHA provide transaction level detail of the federal expenditures at the May 2011 board meeting.

Invoices and supporting documentation for the federal expenditures are available for audit by the Cognizant Agency upon request.

In addition to the actions already proposed in this response, the Board is prepared to take an additional action. If the Cognizant Agency and the School mutually agree that another A-133 audit should be performed by an independent accountant for the period 07-01-08 through 06-30-10, the Board and NHA

will fully support and facilitate an audit. Any invoices and supporting documentation required to support federal expenditures will be made available to the accountant.

Services Agreement – Compliance with Internal Revenue Service Guidelines

The SBA raised concerns about compliance with IRS guidelines, particularly those in the IRS Manual 4.76.8.8.2 for examiners.

The Academy applied for and received a determination from the IRS that it is a public charity described in Section 501(c)(3) of the Internal Revenue Code. In making this determination, the IRS closely reviewed the Academy's activities, its relationship with NHA and the terms of the services agreement (a copy of which was included as part of the Academy's application for exemption), including the fee arrangement. The IRS applied the requirements in the manual for examiners to the Academy's application (as we understand it does in the case of all charter schools that choose to retain a management company in connection with their operations) and determined that the Academy (and the services agreement) complied with the requirements of Section 501(c)(3) and that the Academy was therefore entitled to tax exemption. The Academy has not changed its operations or the substance of its relationship with NHA, nor has it amended the services agreement in any material way since it filed its application for exemption and received its IRS determination letter.

Prescribed Forms

The Board has outsourced the general ledger and accounts payable functions to NHA.

The Board will ensure that the will begin using a prescribed receipt book.

Board Disbursements

The SBA noted deficiencies in the review of Board Disbursements. Future board disbursements will comply with the Indiana regulations.

In the future, adequate supporting detail will be retained (such as hotel invoices instead of hotel confirmation notices), and board approval of the payments will be documented. Alcoholic beverages will not be purchased with Academy funds. Additionally, a Travel Policy will be adopted and disbursements for travel will be based on actual miles and will be documented on a Mileage Claim.

Receipt Issuance and Untimely Deposits

The SBA noted that a prescribed receipt book is not in use at the school, that receipts were not issued for all collections at the school building, and that deposits from April 2010 to June 2010 were not made timely. To correct the issues going forward, the Academy will begin using a prescribed receipt book and will provide receipts for all collections at the School Building. NHA has a policy in place that requires deposits be made at least weekly. The existing policy will be enforced, and deposits will be made at least weekly.

Textbook Reimbursement Claims

The SBA noted the Textbook Reimbursement Claims filed with the State of Indiana (for fiscal years 2009 and 2010) were improperly completed. NHA, on Aspire's behalf, will contact the Indiana Department of Education to determine how to correct the Reimbursement Claim and the amount paid to the Academy, if necessary. In the future, the Textbook Reimbursement Claim submitted will properly classify the cost of reusable textbooks and the cost of consumable workbooks by grade.

Textbook Rental Fees

The SBA noted that the textbook rental fees were not properly calculated or approved. In the future, textbook rental fees charged (or not charged) will be specifically approved by the Board of Directors.

Collection of Amounts Due

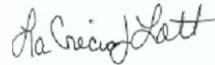
The SBA notes that the Academy did not always collect fees for textbook rental from students. A Textbook Rental Policy is in place that dictates how to account for write-offs of textbook rental fees. The Academy believes that the collection of textbook rental was in compliance with the policy in place.

We appreciate the opportunity to respond to the SBA's audit results and comments.

Signed:
March 28, 2011



Mr. Richard Comer
Board President
Aspire Academy



Ms. LaCrecia Lott
Board Treasurer
Aspire Academy