



STATE OF INDIANA
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B42004

STATE BOARD OF ACCOUNTS
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March 19, 2013

Charter School Board
Indiana Math and Science
Academy – Indianapolis, Inc.
4575 West 38th Street
Indianapolis, IN 46254

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Indiana Math and Science Academy – Indianapolis, Inc., as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 19 through 22 contain four current audit findings. Pages 23 and 24 contain the status of two prior audit findings. Management's response is in Attachment A.

In addition to the report presented herein, a Supplemental Audit Report for Indiana Math and Science Academy – Indianapolis, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

State Board of Accounts

INDIANA MATH AND SCIENCE ACADEMY –
INDIANAPOLIS, INC.

Financial Statements and Federal Single Audit Report

June 30, 2012

Fitzgerald | Isaac LLC
Certified Public Accountants

INDIANA MATH AND SCIENCE ACADEMY - INDIANAPOLIS, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Indiana Math and Science Academy – Indianapolis, Inc.

We have audited the accompanying statement of financial position of **Indiana Math and Science Academy – Indianapolis, Inc.** (the "School") as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Indiana Math & Science Academy – Indianapolis, Inc.** as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2013 on our consideration of the School's internal control over financial reporting and on 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 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 performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Aggravated / June 2012

Indianapolis, IN
February 4, 2013

INDIANA MATH AND SCIENCE ACADEMY - INDIANAPOLIS, INC.

Statement of Financial Position

| <u>Assets</u> | <u>June 30, 2012</u> |
|--|----------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 244,121 |
| Note receivable | 100,000 |
| Accounts receivable: | |
| State education support | 1,797,955 |
| Grants | 182,089 |
| Prepaid expenses | 25,465 |
| Total current assets | <u>2,349,630</u> |
| Property and equipment: | |
| Textbooks | 181,515 |
| Library books | 6,513 |
| Leasehold improvements | 306,271 |
| Furniture and equipment | 842,407 |
| Less: accumulated depreciation | <u>(620,377)</u> |
| Property and equipment, net | <u>716,329</u> |
| | <u>\$ 3,065,959</u> |
| <u>Liabilities and Net Assets</u> | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 437,126 |
| Accrued interest on Common School Fund loans | 220,279 |
| Deferred rent payable | 15,026 |
| Long-term debt | <u>2,109,144</u> |
| Total liabilities | <u>2,781,575</u> |
| Unrestricted net assets | <u>284,384</u> |
| | <u>\$ 3,065,959</u> |

See accompanying notes to financial statements.

INDIANA MATH AND SCIENCE ACADEMY - INDIANAPOLIS, INC.

Statement of Activities

| | Year Ended June 30, 2012 |
|-----------------------------------|-----------------------------|
| <u>Revenue, Gains and Support</u> | |
| State education support | \$ 3,596,071 |
| Grant revenue | 1,161,434 |
| Student fees | 52,041 |
| Interest | 1,060 |
| Contributions | 375 |
| Other | 11,396 |
| Total revenue, gains and support | <u>4,822,377</u> |
| | |
| <u>Expenses</u> | |
| Program services: | |
| Educational instruction | 2,893,848 |
| Education support | 814,563 |
| Administrative | 1,274,596 |
| Total expenses | <u>4,983,007</u> |
| | |
| Decrease in net assets | (160,630) |
| | |
| Net assets, beginning of year | <u>445,014</u> |
| | |
| Net assets, end of year | <u>\$ 284,384</u> |

See accompanying notes to financial statements.

INDIANA MATH AND SCIENCE ACADEMY - INDIANAPOLIS, INC.

Statement of Cash Flows

| | Year Ended June 30, 2012 |
|---|-----------------------------|
| <u>Operating Activities</u> | |
| Change in net assets | \$ (160,630) |
| Adjustments to reconcile change in net assets to cash flows from operating activities: | |
| Depreciation | 222,978 |
| Change in: | |
| Accounts receivable | (41,151) |
| Prepaid expenses | (5,361) |
| Accounts payable and accrued expenses | 89,038 |
| Deferred rent payable | 15,026 |
| Refundable advances | (19,281) |
| Net cash provided by operating activities | <u>100,619</u> |
| <u>Investing Activities</u> | |
| Acquisition of property and equipment | (177,363) |
| Net loans to affiliated entity | (50,000) |
| Net cash used by investing activities | <u>(227,363)</u> |
| Net decrease in cash | (126,744) |
| Cash and cash equivalents, beginning of year | <u>370,865</u> |
| Cash and cash equivalents, end of year | <u>\$ 244,121</u> |
| Supplemental disclosures: | |
| Cash paid for interest expense | \$ - |

See accompanying notes to financial statements.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

General

Indiana Math & Science Academy – Indianapolis, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24-3-1 and sponsored by Ball State University. The School commenced operations as of July 1, 2007.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Subsequent Events

The School evaluated subsequent events through February 4, 2013, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the school year in which educational services are rendered.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$1,000 are charged to expense as incurred.

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

| | |
|-------------------------------|-----------|
| Textbooks | 5 years |
| Library books | 5 years |
| Leasehold improvements..... | 15 years |
| Furniture and equipment | 3-5 years |

Taxes on Income

Indiana Math & Science Academy – Indianapolis, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the organization would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2011, 2010, and 2009 are open to audit for both federal and state purposes.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Notes to Financial Statements

(2) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represent amounts due from the State of Indiana relating to the following sources:

| | |
|-------------------------------|--------------------|
| Tuition support | \$1,717,553 |
| Special education grant | 74,815 |
| Prime Time grant..... | <u>5,587</u> |
| | <u>\$1,797,955</u> |

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law with tuition support payable in equal monthly installments in the calendar year following the start of the school year. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 3).

(3) Long-Term Debt

Long-term debt at June 30, 2012 was comprised of five separate notes payable to the Indiana Common School Fund. The notes require semi-annual payments of principal and interest over periods of four years and twenty years with interest at 4% per annum. The Indiana Common School Fund granted a moratorium on loan payments until July 1, 2013. The last note matures January 1, 2033. These notes are secured by unpaid tuition support distributions (see Note 2).

Future maturities of long-term debt are as follows:

| | |
|----------------------------|--------------------|
| <u>Year Ended June 30:</u> | |
| 2013 | \$ - |
| 2014 | 167,855 |
| 2015 | 167,855 |
| 2016 | 167,855 |
| 2017 | 130,652 |
| Thereafter | <u>1,474,927</u> |
| | <u>\$2,109,144</u> |

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Notes to Financial Statements

(4) Leases

In 2007, the School executed a ten-year lease on a building used as its school facility under an operating lease agreement with Godby Redevelopment Company, LLC. The lease provides for monthly rental payments which increase annually over the term of the agreement. The School has the option to extend the lease for an additional five-year term. Under the lease, the School is also responsible for repairs, maintenance, and utilities.

The School also leases office equipment under two different operating leases which expire in June 2014 and February 2016, respectively.

Total lease expense for the year ended June 30, 2012 was \$465,932. A schedule of minimum lease obligations as of June 30, 2012 follows:

Year Ended June 30:

| | |
|------------|-----------|
| 2013 | \$418,937 |
| 2014 | 429,034 |
| 2015 | 436,020 |
| 2016 | 444,109 |
| 2017 | 447,555 |

(5) Retirement Plan

Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System Board. Under the plan, the School contributes 7.5% of compensation for teaching faculty to TRF. Substantially all full-time teaching employees are eligible to participate. All non-teaching personnel are eligible for participation in the Indiana State Public Employees Retirement Fund, which is also administered by the Indiana Public Retirement System Board. Under this plan, the School will match 100% of employee contributions not to exceed 7% of compensation for the plan year. Retirement plan expense under both plans for the year ended June 30, 2012 was \$132,324.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Notes to Financial Statements

(6) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this agreement totaled \$113,507 for the year ended June 30, 2012. The charter remains in effect until June 30, 2013, and is renewable thereafter by mutual consent.

The School has contracted with Concept Schools, Inc. to provide on-going training and consultation, personnel, recruitment and admissions, and other services. Under the terms of the agreement, the School has agreed to pay an amount equal to 10% of revenues, as defined, for such services. Payments under this agreement totaled \$357,983 for the year ended June 30, 2012. This agreement is renewable annually.

(7) Risks and Uncertainties

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

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

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2012, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits maintained at PNC Bank frequently exceed the FDIC insurance limit.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Notes to Financial Statements

(8) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the year ended June 30, 2012:

| | <u>Educational Instruction</u> | <u>Education Support</u> | <u>Admini- strative</u> |
|--|------------------------------------|------------------------------|-----------------------------|
| Salaries and wages..... | \$1,522,212 | 109,906 | 410,271 |
| Employee benefits | 364,315 | 22,850 | 98,346 |
| Staff development and recruitment..... | 30,015 | - | - |
| Academic services | - | - | 357,983 |
| Authorizer's oversight fee..... | - | - | 113,507 |
| Food service | - | 270,229 | - |
| Transportation service | - | 318,215 | - |
| Other professional services | 81,413 | 11,682 | 79,960 |
| Textbooks | 52,793 | - | - |
| Classroom, kitchen and office supplies..... | 50,650 | 22,710 | 54,701 |
| Equipment rental and expense.. | 44,398 | 26,170 | - |
| Occupancy | 524,921 | - | - |
| Depreciation | 222,978 | - | - |
| Interest | - | - | 84,366 |
| Insurance | - | - | 26,307 |
| Other..... | <u>153</u> | <u>32,801</u> | <u>49,155</u> |
| | <u>\$2,893,848</u> | <u>814,563</u> | <u>1,274,596</u> |

INDIANA MATH AND SCIENCE ACADEMY - INDIANAPOLIS, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

| <u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Total Federal Awards Expended</u> |
|--|------------------------------------|---|--|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Pass-Through Indiana Department of Education | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | | \$ 56,098 |
| National School Lunch Program | 10.555 | | 121,172 |
| Total for cluster | | | <u>177,270</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | |
| Pass-Through Indiana Department of Education | | | |
| Grants to Local Educational Agencies | 84.010 | | 526,302 |
| ARRA--Grants to Local Educational Agencies | 84.389 | | 39,042 |
| Total for cluster | | | <u>565,344</u> |
| Charter Schools Program | 84.282 | | 159,154 |
| Special Education - Grants to States | 84.027 | | 49,649 |
| ARRA--Special Education - Grants to States | 84.391 | | 2,410 |
| Total for cluster | | | <u>52,059</u> |
| Improving Teacher Quality State Grants | 84.367 | | 8,334 |
| Education Jobs Fund | 84.410 | | 101,551 |
| Total for federal grantor agency | | | <u>886,442</u> |
| Total federal awards expended | | | <u>\$ 1,063,712</u> |

See accompanying Independent Auditors' Report.
See accompanying notes to this schedule.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Indiana Math & Science Academy – Indianapolis, Inc. (“the School”) under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Indiana Math & Science Academy – Indianapolis, Inc.

We have audited the financial statements of **Indiana Math and Science Academy – Indianapolis, Inc.** ("the School") as of and for the year ended June 30, 2012 and have issued our report thereon dated February 4, 2013. 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

The management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding No. 2012-1 and Finding No. 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the School 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*, which are described in the accompanying schedule of findings and questioned costs as Finding No. 2012-3 and Finding No. 2012-4.

This report is intended for the information of the Board of Directors, management, 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.



Indianapolis, IN
February 4, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Indiana Math & Science Academy – Indianapolis, Inc.

Compliance

We have audited the compliance of **Indiana Math & Science Academy – Indianapolis, Inc.** (the "School") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2012. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

As described in Finding No. 2012-3 and Finding No. 2012-4 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding employee time records that are applicable to the Grants to Local Educational Agencies program or requirements regarding eligibility and reporting applicable to the Child Nutrition program. Compliance with such requirements is necessary, in our opinion, for the School to assure proper reimbursement of costs applicable to those programs.

In our opinion, except for the non-compliance described in the preceding paragraph, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Indianapolis, Indiana 46260
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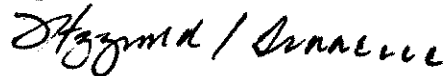
Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2012-3 and Finding No. 2012-4 to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, 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.



Indianapolis, IN
February 4, 2013

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditors' Results

Financial Statements

| | |
|---|-------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| ▪ Material weaknesses: | Yes |
| ▪ Significant deficiencies that are not considered to be material weaknesses: | No |
| Noncompliance noted which is material to financial statements: | No |

Federal Awards

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

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditors' Results, Continued

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 84.010 | Grants to Local Educational |
| 84.389 | Agencies Cluster |

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

Auditee qualified as low-risk auditee: No

II. Financial Statement Findings

FINDING NO. 2012-1 EMPLOYEE TIME REPORTING

As discussed at Finding 2012-3, the School did not maintain documentation in the form of time and attendance records in order to support the allocation of salary expense to the Title I program. The absence of this data could result in the inaccurate allocation of costs and the improper claim of costs for reimbursement. Time and attendance records should be maintained for all personnel supported by federal programs and approved by a responsible School official.

FINDING NO. 2012-2 ELIGIBILITY

As discussed at Findings 2012-4, processes were not in place during the year ended June 30, 2012 to assure that students were correctly assigned meal benefits and that claims for meal reimbursement were accurate. The absence of a formal process governing program eligibility could result in a federal program supporting students that do not qualify for benefits and/or eligible students being denied benefits. A methodical process for determination, documentation, and reporting of income eligibility should be established and monitored for compliance.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

III. Federal Award Findings and Questioned Costs

Questioned
Costs

FINDING NO. 2012-3 EMPLOYEE TIME REPORTING

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Grants to Local Educational Agencies
CFDA Number: 84.010 and 84.389
Award Year: FY 2011-12

Condition

The School did not maintain records to support the allocation of salaries to Title I activities by use of time and attendance reports.

Criteria

OMB Circular A-122 requires that “charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports....”

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities....”

Cause

The School had not established procedures to obtain and compile employee data for time spent on Title I activities.

Effect

The failure to properly document employee attendance and time could result in funds being inappropriately charged to grant programs.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

Context

Due to the lack of documentation, it was not possible to determine if salaries were improperly allocated.

\$ -0-

Recommendation

We recommend that the School implement a process for reporting time and effort spent by employees on Title I program activities.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

FINDING NO. 2012-4 ELIGIBILITY

| | |
|----------------------|---------------------------------|
| Federal Agency: | U.S. Department of Agriculture |
| Pass-Through Agency: | Indiana Department of Education |
| Federal Program: | Child Nutrition Cluster |
| CFDA Number: | 10.553 and 10.555 |
| Award Year: | FY 2011-12 |

Condition

The School did not maintain a record of students qualified to receive free and reduced cost meals that were claimed for reimbursement. As such, it was not possible to determine if claims for free and reduced meal reimbursement were accurate.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

Criteria

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the SFAs, institution's, or sponsor's administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR sections 210.7(c), 210.8(c), and 225.9(d)).

Cause

Proper internal controls were not in place to ensure reports related to free and reduced meal claims were accurate and maintained.

Effect

The failure to maintain proper support for free and reduced meal claims could result in inaccurate claims and could cause the School to be ineligible to receive future awards.

Context

The Indiana Department of Education ("IDOE") performed an examination of School procedures for the same period and found the School to be deficient. IDOE determined that the program had been over-charged by \$12,025.

\$12,025

Recommendation

We recommend that the School implement internal controls to ensure the accuracy of free and reduced meal claims submitted to IDOE and maintain a record of qualified students in support of the claims.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2012

FINDING NO. 2011-1 INTERNAL CONTROLS OVER THE VERIFICATION OF FREE AND REDUCED MEAL APPLICATIONS

Federal Agency: U.S. Department of Agriculture
Pass-Through Agency: Indiana Department of Education
Federal Program: Child Nutrition Cluster
CFDA Number: 10.553 and 10.555
Award Year: FY 2009-10 and 2010-11

Condition

This finding was a material weakness stating that the School did not maintain a record of students selected for income eligibility verification or segregate the applications that were subject to verification.

Recommendation

The auditor recommended the development and implementation of procedures and controls to ensure that the verification of free and reduced meal applications was performed in accordance with grant requirements and that related reports were accurate.

Current Status

The recommendation was adopted. The School has implemented controls whereby the verification of free and reduced meal applications is performed in accordance with grant requirements and properly documented. No similar finding was noted in the 2012 audit.

FINDING NO. 2011-2 CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Pass-Through Entity: Indiana Department of Education
Federal Program: Title I, Part A Cluster
CFDA Number: 84.010 and 84.389
Year: FY 2009-10 and 2010-11

Condition

This finding was a material weakness stating that excessive cash balances were noted in 14 of the 24 months examined.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

Summary Schedule of Prior Audit Findings, Continued

Year Ended June 30, 2012

Recommendation

The auditor recommended the development and implementation of procedures and controls to ensure that the time between the receipt and disbursement of federal funds is kept to a minimum.

Current Status

The recommendation was adopted. The School no longer requests cash in advance of the disbursement of federal funds. No similar finding was noted in the 2012 audit.

INDIANA MATH AND SCIENCE ACADEMY – INDIANAPOLIS, INC.

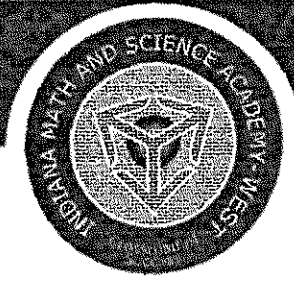
Other Reports

Year Ended June 30, 2012

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

Supplemental Audit Report of Indiana Math and Science Academy – Indianapolis, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.



Attachment A

February 27, 2013

Indiana Math and Science Academy would like to formally respond to the audit comment noted in your examination results for 2012.

Indiana Math and Science Academy already had someone in place to maintain a record of qualified for being eligible of Federal Free and Reduced lunch/breakfast programs.

IMSA will maintain records to support the allocation of salaries to Title I activity by use of time and attendance reports.

Mustafa Adam Yazici
Director