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November 7, 2013

Charter School Board
International School of Columbus, Inc.
3136 North National Road, Suite E
Columbus, IN 47201

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2010 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 the International School of Columbus, Inc., as of June 30, 2011 and 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 22 through 28 contain six current audit findings. As noted in each finding management did not provide a response.

In addition to the report presented herein, a Supplemental Audit Report for International School of Columbus, 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

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Financial Statements

June 30, 2012 and 2011

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1-2 |
| Financial Statements: | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6-13 |
| Supplementary Information: | |
| Schedule of Expenditures of Federal Awards | 14 |
| Notes to Schedule of Expenditures of Federal Awards | 15 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 16-17 |
| 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 | 18-20 |
| Schedule of Findings and Questioned Costs | 21-28 |
| Summary Schedule of Prior Audit Findings | 29 |
| Other Reports | 30 |

INDEPENDENT AUDITORS' REPORT

The Board of Directors
International School of Columbus, Inc.

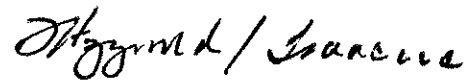
We have audited the accompanying statements of financial position of **International School of Columbus, Inc.** as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of International School of Columbus, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 audits provide 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 International School of Columbus, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 May 20, 2013 on our consideration of International School of Columbus, Inc.'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 audits.

Our audits were 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.



Indianapolis, IN
May 20, 2013

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Statements of Financial Position

| Assets | June 30 | |
|--|------------|-----------|
| | 2012 | 2011 |
| Current assets: | | |
| Cash | \$ 22,189 | 63,984 |
| Accounts receivable: | | |
| State education support | 214,991 | 343,759 |
| Grants | - | 2,806 |
| Prepaid expenses | 524 | 14,643 |
| Total current assets | 237,704 | 425,192 |
| Property and equipment: | | |
| Textbooks | 40,317 | 34,222 |
| Leasehold improvements | 418,141 | 293,532 |
| Furniture and equipment | 269,206 | 172,327 |
| Less: accumulated depreciation | (233,988) | (113,910) |
| Property and equipment, net | 493,676 | 386,171 |
| | \$ 731,380 | 811,363 |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses: | \$ 99,619 | 51,146 |
| Notes payable | 50,000 | 129,786 |
| Current portion of long-term debt | 73,753 | 24,323 |
| Refundable advances | 1,733 | 9,018 |
| Total current liabilities | 225,105 | 214,273 |
| Accrued interest on Common School Fund loans | 21,325 | 5,922 |
| Long-term debt | 436,685 | 467,239 |
| Total liabilities | 683,115 | 687,434 |
| Unrestricted net assets | 48,265 | 123,929 |
| | \$ 731,380 | 811,363 |

See accompanying notes to financial statements.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Statements of Activities

| Revenue, Gains and Support | Year Ended June 30 | |
|-----------------------------------|--------------------|------------------|
| | 2012 | 2011 |
| State education support | \$ 429,580 | 687,644 |
| Grant revenue | 355,286 | 301,199 |
| Student fees | 93,333 | 42,876 |
| Contributions | 260,592 | 108,700 |
| Other | 52,420 | 34,645 |
| Total revenue, gains and support | <u>1,191,211</u> | <u>1,175,064</u> |
| <u>Expenses</u> | | |
| Program services: | | |
| Educational instruction | 767,539 | 583,502 |
| Education support | 155,951 | 75,511 |
| Administrative | 343,385 | 371,062 |
| Total expenses | <u>1,266,875</u> | <u>1,030,075</u> |
| Increase (decrease) in net assets | (75,664) | 144,989 |
| Net assets, beginning of year | <u>123,929</u> | <u>(21,060)</u> |
| Net assets, end of year | <u>\$ 48,265</u> | <u>123,929</u> |

See accompanying notes to financial statements.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Statements of Cash Flows

| | Year Ended June 30 | |
|---|--------------------|-----------|
| | 2012 | 2011 |
| <u>Operating Activities</u> | | |
| Change in net assets | \$ (75,664) | 144,989 |
| Adjustment to reconcile change in net assets to cash flows from operating activities: | | |
| Depreciation | 120,077 | 86,522 |
| Forgiveness of debt | (29,786) | - |
| Change in: | | |
| Accounts receivable | 131,574 | (106,415) |
| Prepaid expenses | 14,119 | (5,606) |
| Accounts payable and accrued expenses | 63,876 | 7,159 |
| Refundable advances | (7,285) | (256,436) |
| Net cash provided (used) by operating activities | 216,911 | (129,787) |
| <u>Investing Activities</u> | | |
| Purchase of property and equipment | (227,583) | (231,820) |
| Net cash used by investing activities | (227,583) | (231,820) |
| <u>Financing Activities</u> | | |
| Proceeds from Common School Fund loans | - | 91,500 |
| Proceeds from short-term loans | 100,000 | 135,250 |
| Principal repayments of short-term loans | (106,800) | (5,464) |
| Principal repayments of long-term loans | (24,323) | (30,145) |
| Net cash provided (used) by financing activities | (31,123) | 191,141 |
| Net decrease in cash | (41,795) | (170,466) |
| Cash, beginning of year | 63,984 | 234,450 |
| Cash, end of year | \$ 22,189 | 63,984 |
| Supplementary information: | | |
| Cash payments for interest expense | \$ 9,584 | 13,874 |

See accompanying notes to financial statements.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

General

International School of Columbus, 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 and sponsored by Ball State University. The School commenced operations with the 2009-10 school year.

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.

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 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.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Accounts Receivable

Accounts receivable relate primarily to activities funded under 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.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

International School of Columbus, 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 years ended June 30, 2012 and 2011, 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.

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 |
| Leasehold improvements..... | 7-10 years |
| Furniture and equipment | 3-5 years |

Subsequent Events

The School evaluated subsequent events through May 20, 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.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

(2) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 and 2011 represent amounts due relating to the following sources:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|------------------|----------------|
| Tuition support | \$204,887 | 343,759 |
| Special education grant | <u>10,104</u> | <u>-</u> |
| Total..... | <u>\$214,991</u> | <u>343,759</u> |

Tuition support is determined by state law and is dependent upon the geographic location of the students attending the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law, with tuition 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) Note Payable

Long-term debt at June 30, 2012 and 2011 was comprised of:

| | <u>2012</u> | <u>2011</u> |
|---|------------------|-----------------|
| Note payable to Illinois Facility Fund..... | \$ 82,160 | 106,483 |
| Note payable to Main Source Bank..... | 43,199 | - |
| Notes payable to Indiana Common School Fund..... | <u>385,079</u> | <u>385,079</u> |
| | 510,438 | 491,562 |
| Less: current maturities | <u>(73,753)</u> | <u>(24,323)</u> |
| | <u>\$436,685</u> | <u>467,239</u> |

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

(3) Note Payable, Continued

The Illinois Facility Fund note is payable in monthly installments of \$2,831, including interest at 5% per annum. The note matures January 2015 and is secured by a leasehold mortgage in connection with real estate located in Bartholomew County, Indiana.

The Main Source Bank note is payable in 24 consecutive payments of \$1,524, including interest at 3.5% per annum beginning January 30, 2013. The note is secured by substantially all School assets.

The notes payable to the Indiana Common School Fund are comprised of multiple notes, each of which requires semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments are scheduled to commence again on July 1, 2013. The last note matures January 1, 2033. These notes are secured by unpaid tuition support distributions (see Note 2).

Principal maturities under the loan agreements are as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|----------|
| 2013 | \$73,753 |
| 2014 | 51,371 |
| 2015 | 38,742 |
| 2016 | 19,254 |
| 2017 | 19,254 |
| Thereafter | 300,724 |

(4) Related Party Transactions

In 2011, the School received two non-interest bearing loans totaling \$50,000 from The Tangeman Charitable Trust. One of the two trustees of The Tangeman Charitable Trust is the spouse of the School Chairman of the Board of Directors. The loans were approved by the non-related trustee. These loans were to be used as partial payment of the principal of the School's line of credit at Indiana Bank and Trust Company. Both loans are classified as current and the repayment is due on or before November 23, 2012. These loans were converted to grants as of November 23, 2012.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

(5) Leases

The School leases the school facility under an operating lease with The Average Partnership, LLC. Lease expense under this lease for the years ended June 30, 2012 and 2011 was \$108,000 and \$105,667, respectively.

Future minimum lease obligations are as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|-----------|
| 2013 | \$108,000 |
| 2014 | 108,000 |
| 2015 | 9,000 |

(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. The charter remains in effect until July 31, 2014, and is renewable thereafter by mutual consent. Payments under this charter agreement were \$12,172 and \$20,721 for the years ended June 30, 2012 and 2011, respectively.

(7) Retirement Plans

Retirement benefits for school employees 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. Substantially all full-time teaching employees are eligible to participate. Retirement plan expense for the years ended June 30, 2012 and 2011 was \$36,332 and \$22,809, respectively.

In 2012, the School adopted a Section 403(b) retirement plan for the benefit of its employees. The School does not provide a match, but additional contributions may be made to the plan at the discretion of the board of directors. No discretionary contributions were made in 2012.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

(8) Contingencies

The audit for the year ended June 30, 2012 disclosed questioned costs under the federal Charter Schools Program grant in the amount of \$24,294. The questioned costs relate to the nature and allowability of the costs for the purpose of the grant. Final determination of the allowability of the costs will be made by the Indiana Department of Education. No liability for the potential outcome of this matter has been recorded in the accompanying financial statements as of June 30, 2012.

(9) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2012 and 2011, the School had refundable grant advances in excess of expenditures of \$1,733 and \$9,018, respectively.

(10) Risks and Uncertainties

The School provides educational instruction services to families residing in Bartholomew 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 could result in additional liability to be imposed.

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 receivable balance was due from the State of Indiana.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

(11) 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 years ended June 30, 2012 and 2011:

| | <u>2012</u> | | |
|--|------------------------------------|------------------------------|-----------------------------|
| | <u>Educational Instruction</u> | <u>Education Support</u> | <u>Admini- strative</u> |
| Salaries and wages..... | \$324,039 | 1,760 | 146,641 |
| Employee benefits | 97,433 | 215 | 32,698 |
| Professional services | 3,490 | 22,347 | 61,390 |
| Staff development and recruitment..... | 19,871 | - | - |
| Authorizer oversight fee | - | - | 12,172 |
| Food costs..... | - | 26,459 | - |
| Transportation service | - | 53,544 | - |
| Travel..... | - | - | 3,151 |
| Equipment | 17,389 | - | 2,110 |
| Repairs and maintenance..... | - | 23,743 | - |
| Classroom, kitchen and and office supplies..... | 64,915 | 14,042 | 26,745 |
| Occupancy | 109,925 | 9,360 | - |
| Insurance | - | - | 8,767 |
| Depreciation | 120,077 | - | - |
| Interest | - | - | 24,987 |
| Other | <u>10,400</u> | <u>4,481</u> | <u>24,724</u> |
| | <u>\$767,539</u> | <u>155,951</u> | <u>343,385</u> |

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

| | <u>2011</u> | | |
|--|--------------------|------------------|-----------------|
| | <u>Educational</u> | <u>Education</u> | <u>Admini-</u> |
| | <u>Instruction</u> | <u>Support</u> | <u>strative</u> |
| Salaries and wages..... | \$244,018 | - | 138,661 |
| Employee benefits | 74,809 | - | 20,139 |
| Professional services | 12,504 | 24,105 | 59,141 |
| Staff development and recruitment..... | 20,295 | - | - |
| Authorizer oversight fee | - | - | 20,721 |
| Food costs..... | - | 5,836 | - |
| Travel..... | - | - | 437 |
| Equipment | 16,471 | - | 3,509 |
| Repairs and maintenance..... | - | 21,854 | - |
| Classroom, kitchen and and office supplies..... | 17,006 | 18,290 | 44,098 |
| Occupancy | 111,877 | 5,336 | - |
| Insurance | - | - | 14,688 |
| Depreciation | 86,522 | - | - |
| Interest | - | - | 19,796 |
| Other | - | 90 | <u>49,872</u> |
| | <u>\$583,502</u> | <u>75,511</u> | <u>371,062</u> |

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

| <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>2012</u> | <u>2011</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| Pass-through Indiana Department of Education | | | | |
| Title I, Part A Cluster | | | | |
| Grants to Local Educational Agencies | 84.010 | | \$ 9,018 | 712 |
| Special Education Cluster | | | | |
| Special Education - Grants to States | 84.027 | | 7,758 | 2,806 |
| Charter Schools Program | 84.282 | A58-0-10OD-005 | 334,480 | 281,824 |
| Education Jobs Fund | 84.410 | | <u>229</u> | <u>15,526</u> |
| Total federal awards expended | | | <u>\$ 351,485</u> | <u>300,868</u> |

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

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Notes to the Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of International School of Columbus, Inc. ("the School") under programs of the federal government for the years ended June 30, 2012 and 2011. The information in this schedule is presented in accordance with the requirements of 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
International School of Columbus, Inc.

We have audited the financial statements of **International School of Columbus, Inc.** (the "School") as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated May 20, 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.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting, reported as item 2012-1, described in the accompanying schedule of findings and questioned costs that

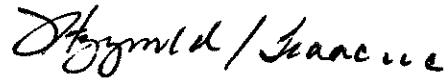
we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2012-2.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and, accordingly, we express no opinion on the responses.

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
May 20, 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
International School of Columbus, Inc.

Compliance

We have audited the compliance of **International School of Columbus, 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 years ended June 30, 2012 and 2011. 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 items 2012-3 to 2012-6 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding allowable costs, procurement policy, financial reporting, and physical inventory that are applicable to the Charter School Program. Compliance with such requirements is necessary, in our opinion, for the School to assure compliance with federal regulations and proper expenditure of funds applicable to that program.

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 years ended June 30, 2012 and 2011.

Internal Control Over Compliance

The 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 one deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-1. *A significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and, accordingly, we express no opinion on the responses.

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.

Raymond / Isaac

Indianapolis, IN
May 20, 2013

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results

Financial Statements

| | |
|---|---------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| ▪ Material weaknesses: | None Reported |
| ▪ Significant deficiencies that are not considered to be material weaknesses: | Yes |
| Noncompliance noted which is material to financial statements: | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| ▪ Material weaknesses: | None Reported |
| ▪ Significant deficiencies that are not considered to be material weaknesses: | Yes |
| Type of auditors' report issued on compliance for major programs: | Qualified |
| Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: | Yes |

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results, Continued

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| 84.282 | Charter Schools Program |
| 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

SIGNIFICANT DEFICIENCY

FINDING NO. 2012-1 GRANT MANAGEMENT

As discussed in Finding No. 2012-3, certain costs were charged to the Charter Schools Program grant that do not appear to meet the criteria set forth by the grant budget. Procedures should be implemented requiring the review of expenditures at the time of the transaction to determine the propriety of the charge as a grant cost in accordance with the grant agreement and federal regulations.

Views of Responsible Officials and Planned Corrective Action

School officials were unable to provide a response to this finding.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

II. Financial Statement Findings, Continued

COMPLIANCE EXCEPTION

FINDING NO. 2012-2 ALLOWABLE COSTS

As discussed in Finding No. 2012-3, certain costs were charged to the Charter Schools Program that do not appear to meet the criteria set forth by the grant budget. We identified costs in the amount of \$24,294 that we determined to be questioned.

Views of Responsible Officials and Planned Corrective Action

School officials were unable to provide a response to this finding.

III. Federal Award Findings and Questioned Costs

FINDING NO. 2012-3 ALLOWABLE COSTS

| | |
|----------------------|---------------------------------|
| Federal Agency: | U.S. Department of Education |
| Pass-Through Agency: | Indiana Department of Education |
| Federal Program: | Charter Schools Program |
| CFDA Number: | 84.282 |
| Award Year: | FY 2011-12 |

Condition

The School sought reimbursement for costs that do not appear to meet the criteria set forth by the grant budget.

Criteria

The School's grant contract with the Indiana Department of Education provided a budget for use of the Implementation Grant funds under the Charter Schools Program. The budget provides descriptions of the types of expenses for which the funds can be used within each budget category.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs, Continued

Cause

The School did not have procedures in place to assure the proper identification of grant costs.

Effect

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

Context

We examined a detailed listing of costs applied to the grant. It was noted that payments toward various items, such as construction costs, that were not part of the budget, were charged to the grant.

\$24,294

Recommendation

We recommend that the School implement a process to review expenditures as they occur in order to determine the allowability under the grant agreements.

Views of Responsible Officials and Planned Corrective Action

School officials were unable to provide a response to this finding.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs, Continued

FINDING NO. 2012-4 PROCUREMENT POLICY

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Charter Schools Program
CFDA Number: 84.282
Award Year: FY 2010-11, FY 2011-12

Questioned
Costs

Condition

The School did not maintain a written procurement policy governing purchase transactions.

Criteria

OMB Circular A-110 (§ .44) states that "all recipients shall establish written procurement procedures", provides for minimum standards for those procedures allowing that "the type of procuring instruments used (e.g., fixed price contracts, cost reimbursable contracts, purchase orders, and incentive contracts) shall be determined by the recipient but shall be appropriate for the particular procurement and for promoting the best interest of the program or project involved".

Cause

The School has been operating using informal procurement procedures.

Effect

The failure to maintain a written procurement policy does not allow for proper documentation of internal controls.

Context

Our examination of numerous procurement transactions did not indicate the application of a uniform procurement policy.

\$ -0-

Recommendation

We recommend that the School develop a written procurement policy that is responsive to its various procurement actions.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs, Continued

Views of Responsible Officials and Planned Corrective Action

School officials were unable to provide a response to this finding.

FINDING NO. 2012-5 FINANCIAL REPORTING

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Charter Schools Program
CFDA Number: 84.282
Award Year: FY 2010-11

Condition

The School was unable to provide supporting schedules that present the manner in which costs were applied to grant budget categories.

Criteria

OMB Circular A-110 (§__ .53(b)) requires that "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency."

Cause

The School did not retain adequate documentation to support the budget reports that it submitted.

Effect

The failure to retain documentation to support costs applied to a grant program could result in liability to the School.

Context

The detailed report of grant costs was not categorized in a manner in which to support the various budget categories in the grant agreement.

\$ -0-

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs, Continued

Recommendation

We recommend that the School implement procedures to assure that documentation for all financial reports is retained in accordance with OMB Circular A-110.

Views of Responsible Officials and Planned Corrective Action

School officials were unable to provide a response to this finding.

FINDING NO. 2012-6 PROPERTY RECORDS

| | |
|----------------------|---------------------------------|
| Federal Agency: | U.S. Department of Education |
| Pass-Through Agency: | Indiana Department of Education |
| Federal Program: | Charter Schools Program |
| CFDA Number: | 84.282 |
| Award Year: | FY 2010-11, FY 2011-12 |

Condition

The School has acquired various assets with federal grant resources; however, it did not perform a physical inventory of equipment within the two year period ended June 30, 2012.

Criteria

OMB Circular A-110 (§___.34(f)(3)) requires that a “physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.”

Cause

The School has not taken the necessary steps to conduct a physical inventory.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs, Continued

Effect

Without a regularly scheduled physical inventory, the School cannot maintain accountability for federal assets.

Context

Our audit identified numerous assets acquired with federal funds, for which a physical inventory should be conducted.

\$ -0-

Recommendation

We recommend that the School implement procedures to assure that a physical inventory of capital assets is completed.

Views of Responsible Officials and Planned Corrective Action

School officials were unable to provide a response to this finding.

Total U.S. Department of Education.....

\$24,294

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Summary Schedule of Prior Audit Findings

Years Ended June 30, 2012 and 2011

International School of Columbus, Inc. did not meet the threshold for an audit in accordance with OMB Circular A-133 for the year ended June 30, 2010. As such, there were no prior audit findings.

INTERNATIONAL SCHOOL OF COLUMBUS, INC.

Other Reports

Years Ended June 30, 2012 and 2011

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

Supplemental Audit Report of International School of Columbus, 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*.