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INNOVATORS IN MILESTONES, INC.

Audit of Financial Statements

June 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2-9-05

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Innovators in Milestones, Inc.

We have audited the accompanying statement of financial position of Innovators in Milestones, Inc. (a non-profit corporation) as of June 30, 2004 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Innovators in Milestones, Inc. 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 Innovators in Milestones, Inc. as of June 30, 2004, and the results of its operations 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 December 14, 2004 on our consideration of Innovator's in Milestones, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Metairie, LA
December 14, 2004

INNOVATORS IN MILESTONES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

Current Assets		
Cash	\$	288
Grants receivable		250,641
Prepaid expenses		1,024
Total current assets		<u>251,953</u>
Property and Equipment		
Furniture and equipment		28,332
Less accumulated depreciation		<u>(3,554)</u>
Net property, plant and equipment		<u>24,778</u>
Total assets	\$	<u><u>276,731</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$	25,689
Accrued salaries and payroll liabilities		106,378
Management fees payable		149,475
Total liabilities		<u>281,542</u>
Net assets - unrestricted		<u>(4,811)</u>
Total liabilities and net assets	\$	<u><u>276,731</u></u>

The accompanying notes are an integral part of these financial statements.

**INNOVATORS IN MILESTONES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

REVENUES

State public school funding	\$ 2,358,355
Other state funding	31,592
Federal Sources	341,011
Other income	<u>35,757</u>
Total revenues	<u>2,766,715</u>

EXPENSES

Instruction:	
Regular education programs	1,215,860
Special education programs	108,694
Other instructional programs	37,271
Support Services:	
Pupil support services	130,329
Instructional staff services	50,823
School administration	303,659
Business services	242,023
Operation and maintenance	492,944
Student transportation service	2,831
Central services	9,214
Food services	174,324
Depreciation	<u>3,554</u>
Total expenses	<u>2,771,526</u>
Change in net assets	(4,811)
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u>\$ (4,811)</u>

The accompanying notes are an integral part of these financial statements.

INNOVATORS IN MILESTONES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash flows from operating activities	
Decrease in net assets	\$ (4,811)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	3,554
(Increase) in grants receivable	(250,641)
(Increase) in prepaid expenses	(1,024)
Increase in accounts payable	25,689
Increase in management fees payable	149,475
Increase in accrued salaries and payroll liabilities	106,378
Total adjustments	<u>28,620</u>
Net cash provided by operating activities	23,809
Cash flows from investing activities:	
Purchase of fixed assets	(28,332)
Net cash flows used by investing activities	<u>(28,332)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	288
Cash and cash equivalents at the beginning of the year	-
Cash and cash equivalents at the end of the year	<u>\$ 288</u>

The accompanying notes are an integral part of these financial statements.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – Nature of Operations:

Innovator's in Milestones, Inc., a not-for-profit corporation, (Milestone) was formed in August of 1998 in New Orleans, Louisiana. Milestone has been dormant since inception through July 1, 2003. Milestone's stated purpose is to:

- Improve student learning
- Increase learning opportunities and admittance to quality education for all students
- Encourage the use of inventive teaching methods and a variety of governance, management and administrative structures
- Be meticulously accountatable for educational results
- Create new professional opportunities for teachers and other school employees

On August 9, 2003, Milestone's reconstituted charter was approved for one year by the Louisiana State Board of Elementary and Secondary Education (BESE), authorized by LA Charter School Demonstration Project, to operate an independent public school, Milestone SABIS Academy of New Orleans (the School). The charter is valid through June 30, 2004, subject to renewal by BESE after that date.

The School operates as a Type II charter school as defined in LSA R.S. 17:3971, et. seq. The School serves eligible students in grades kindergarten through seventh grade in the parish of Orleans with approximately 340 students

On July 7, 2003 Milestone engaged New Orleans Education Management, LLC (NOEM) to provide educational and other services to and on behalf of Milestone and the School in accordance with provisions of the Charter School Laws and any other applicable laws and regulations. Under the referenced agreement NOEM is responsible for the day-to-day operations of the School and the education of all students enrolled in the School. Compensation under this agreement amounts to a license fee of 6% of revenue and a management fee of 8% of revenue (revenue for this calculation does not include grants, donations or gifts). The term of this agreement is for five years commencing with the date of execution of the agreement and terminating June 30, 2008 subject to the renewal of the charter and provisions of the Charter School Laws and Regulations and any and all other applicable federal and state laws and regulations.

Furthermore, in the management contract with NOEM, Milestone agrees that in the event that no surplus of funds remains from the per-pupil funding or other revenues, after all expenses of the School have been paid, NOEM will not cover these deficits.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – Nature of Operations (continued):

The management contract further states that in the event of a projected deficit, NOEM may, in its sole discretion, provide financing to Milestone provided that both parties agree to terms of such financing and further provided that such financing will be re-paid from future surplus.

NOTE 2 – Summary of Significant Accounting Policies:

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of Milestone are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The financial statements are presented in accordance Statement of Financial Accounting Standards (SFAS) No. 116, “Accounting for Contributions Received and Contributions Made”, and in accordance with SFAS No. 117, “Financial Statements of Not-for-Profit Organizations”. SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires Milestone to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Under SFAS No. 117, Milestone is required to report information regarding its financial position and activities according to three classes of net assets:

- ❖ Unrestricted Net Assets

- ❖ Temporarily Restricted Net Assets

- ❖ Permanently Restricted Net Assets

In addition, Milestone is required to present a statement of cash flows. At June 30, 2004, Milestone has neither temporarily nor permanently restricted net assets.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – Summary of Significant Accounting Policies (continued):

Fair Value of Financial Instruments

The estimated fair value of all significant financial statement amounts have been determined by Milestone using available market information and appropriate valuation methodologies.

Milestone considers the carrying amount of cash, to approximate fair value.

Promises to Give

Contributions are recognized when the donor makes a promise to give to Milestone, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. For the year ended June 30, 2004 Milestone has not recorded promises to give.

Minimum Foundation Program (MFP)

Milestone receives funding from BESE in an amount for pupils based on estimated daily attendance in the School. The amount of funding received is adjusted during the school year based on the October 1st student count, the February 15th student count and the results of any audits performed.

Other Funding

Other revenues received by Milestone consist of private and public grants, summer school and extended day revenue.

Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of revenues, expenses, and change in fund net assets. Accordingly, certain costs have been allocated among instructional and support services in the accompanying statement of revenues, expenses, and change in fund net assets.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – Summary of Significant Accounting Policies (continued):

Statement of Cash Flows

For purposes of the statement of cash flows, Milestone considers all investments with original maturities of three months or less to be cash equivalents. At June 30, 2004, Milestone had no cash equivalents.

Use of 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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Milestone operates as a nonprofit entity and has been granted tax-exempt status under an advance ruling period by the Internal Revenue Service (IRS) under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes.

At June 30, 2003, Milestone's advance ruling period ended. The IRS subsequently determined that since Milestone was dormant during the advance ruling period (thereby receiving no public support) it should be classified as a private foundation. Milestone has since applied with the IRS for termination of the "private foundation" status and for a new five year advance ruling period to be classified as a "publicly supported organization". The application is pending as of December 17, 2004.

Receivables:

Milestone considers grants receivable to be fully collectible since the balance primarily consists of payments due under government contracts (federal and state grants). If amounts due become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

Property and equipment include furniture and equipment costing \$ 200 or more, and having a useful life greater than one year. Depreciation is computed using the straight-line method over the asset's estimated life. The following are the estimated

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – Summary of Significant Accounting Policies (continued):

useful lives of property and equipment:

	<u>Useful Lives</u>
Furniture and fixtures	7 years
Security equipment	4 years
Kitchen equipment	3 years
Computer equipment	3 years

NOTE 3 – Cash:

At June 30, 2004, Milestone's cash balance consists of the following:

Demand deposits	<u>\$ 288</u>
-----------------	---------------

NOTE 4 – Risk Management:

Milestone is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets for which Milestone carries commercial insurance, covering the School's operation only. During the year ended June 30, 2004, the Board of Directors was covered with officers' and directors' insurance, as well.

Liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. There was no amount recorded in the financial statements for a potential loss.

NOTE 5 – Concentrations:

Milestone maintains cash balances at a local bank. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. From time to time throughout the year these balances exceed amounts covered by the FDIC. As of June 30, 2004 Milestone's bank balances did not exceed amounts covered by the FDIC.

Milestone receives primarily all of its revenues from the State of Louisiana subject to its charter agreement with the State. Milestone also receives funding from various other federal, state and local sources. A significant reduction in the level of this funding from the State of Louisiana and other sources could impact Milestone's operations and programs. See Note 2 for additional discussion.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6 – Contingencies and Commitments:

Milestone is a recipient of funding from BESE through the State of Louisiana's Minimum Foundation Program. This funding is governed by various guidelines, regulations and contractual agreements. The administration of the programs and activities funded is under the control and administration of Milestone and is subject to audit and/or review by the applicable funding source. Any funds found to be not properly spent in accordance with the terms, conditions and regulations of the funding sources may be subject to recapture. See Note 11 (Subsequent Event) relating to possible recapture of MFP funding during the 2005 fiscal year due to Department of Education audit.

As of December 17, 2004, Milestone has not received its renewed charter contract with BESE and the Louisiana Department of Education (LDOE). Milestone's current charter expired on June 30, 2004. However, Milestone is operating as a charter school during the 2004-2005 school year, and is currently receiving funding from BESE through the State of Louisiana's Minimum Foundation Program.

See Note 10 (NOEM Contract) for discussion of management and license fees and related liabilities for those fees due to NOEM.

NOTE 7: Leases:

Milestone leases its facility and equipment and other school property under two leases with Springfield Property Management LLC (Springfield). The first lease is for personal property in connection with the operation of the School is effective July 1, 2003. The lease is effective for four years through July 1, 2007. At the end of this term the lessor has an option to renew the lease for an additional three years by giving Milestone written notice of its intent at least thirty days prior. Milestone's monthly lease payments are \$ 2,333.33.

The second lease is for the School facility located at 5951 Patton Street in New Orleans, Louisiana. This lease is effective as of July 1, 2003 and extends through May 29, 2007. Springfield has executed the lease with the owners of the property and is sub-leasing the facility to Milestone. Upon expiration of this lease the owners have the option to renew the lease with Springfield. If this should occur, Milestone will have an option to renew the lease for a term of five years. Base rents under the new lease would be calculated using the current lease amounts and adjusted based on changes in the "Consumer Price Index for all Urban Consumers".

Rents paid under the facility lease are determined based on the following:

1. Monthly leasehold payment of \$ 5,280.33 (\$ 63,364 per year)

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

2. An additional amount per month as follows:

<u>School Year</u>	<u>Monthly rent payment</u>
2003-2004	\$ 19,352.42
2004-2005	\$ 19,984.49
2005-2006	\$ 20,126.52
2006-2007	\$ 20,320.04

Total lease expense amounted to \$ 323,593 for the year ended June 30, 2004.

The minimum future lease payments under the above leases are as follows:

<u>Fiscal Year End</u>	<u>Lease Commitment</u>
June 30, 2005	\$ 331,178
June 30, 2006	\$ 332,882
June 30, 2007	\$ 314,884
Total	<u>\$ 978,944</u>

NOTE 8: Grants Receivable:

Milestone's grants receivable as reported on the Statement of Financial Position consist of the following as of June 30, 2004:

LEAP 21 Tutoring	\$ 4,027
LEAP 21 Summer Remediation	12,482
Special Education IDEA Part B	10,218
Special Education Supplemental	4,173
PIP	1,815
U.S. Department of Education Grants:	
Title I	203,406
Title II	4,147
Title III	911
Title IV	1,531
Title V	2,741
State Charter School Grant	2,000
BESE 8 (g) Program	2,638
Extended School Year Program	<u>552</u>
Total grants receivable	<u>\$ 250,641</u>

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 9: Property and Equipment:

Milestone's property and equipment as reported in the Statement of Financial Position as of June 30, 2004 is listed below:

	July 1, 2003	Additions	Deletions	June 30, 2004
Furniture & fixtures	\$ -	\$ 7,886	\$ -	\$ 7,886
Security equipment	-	5,020	-	5,020
Kitchen equipment	-	2,566	-	2,566
Computer equipment	-	12,860	-	12,860
Less: Accumulated Depreciation	-	(3,554)	-	(3,554)
	<u>\$ -</u>	<u>\$ 24,778</u>	<u>\$ -</u>	<u>\$ 24,778</u>

Depreciation expense for the year ended June 30, 2004 amounted to \$ 3,554.

All assets acquired with Department of Education funds are owned by Milestone while used in the purpose for which it was purchased. The Department of Education, however, has a reversionary interest in these assets. Should the charter not be renewed, title in any assets purchased with these funds will transfer to the appropriate agency.

NOTE 10: NOEM Contract:

As discussed in Note 1 to the financial statements Milestone has a management contract with NOEM. For the year ended June 30, 2004 Milestone incurred expenses for management fees under this contract in the amount of \$ 188,668 (representing 8% of State Public School Funding). At June 30, 2004 Milestone owed NOEM \$ 149,475 for management fees under that contract for the year ended June 30, 2004, which is reflected in the Statement of Financial Position. As previously discussed in Note 1 to the financial statements the contract with NOEM states that this liability will be re-paid from future surplus of the School.

For the year ended June 30, 2004 Milestone also incurred expenses for a license fee, under the same contract with NOEM, in the amount of \$ 141,501 (representing 6% of State Public School Funding). At June 30, 2004 Milestone owed NOEM \$ 0 for the license fee under that contract for the year ended June 30, 2004.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 11: Subsequent Event:

During 2004 Milestone's attendance figures and eligible pupils for MFP funding were audited by the State of Louisiana Department of Education (DOE). A preliminary report was issued by the DOE on December 7, 2004 informing Milestone that the DOE was recommending an adjustment to Milestones June 30, 2004 MFP funding resulting in a reduction in Milestone's current year (June 30, 2005) MFP funding due to the following:

1. The DOE identified 10 students reported in Milestone's October 1, 2003 student membership count that were ineligible for inclusion in the funded membership of the School.
2. The DOE identified 81 students reported in Milestone's February 15, 2004 student membership count that were ineligible for inclusion in the funded membership of the School.
3. The DOE identified 18 students that were eligible for inclusion in the funded membership of the School as of February 15, 2004, that were not included in Milestone's February 15th student membership count.

The net result of the DOE audit findings was to reduce Milestone's October 1st student membership count for funding purposes by 10 students and its February 15th student membership count by 63 students. Milestone had already reported 53 of the 63 students for the February 15th count as ineligible for funding. Milestone's funding as it relates to these students was reduced during the fiscal year ended June 30, 2004.

The effect of the DOE report, if it were to remain unchanged, would be an adjustment to the June 30, 2004 MFP funding resulting in a decrease in the June 30, 2005 MFP funding in the amount of \$ 81,667. The DOE's practice is to immediately adjust current year funding, resulting in a reduction in that amount in total, pending Milestone's response and the DOE final report.

Milestone's management is disputing the DOE report and believes student membership as it applies to funding should only be reduced by two students as of October 1st and by three additional students as of February 15th. Milestone has filed a response to the DOE audit with support for the students in question. Milestone believes that after reviewing its response the DOE will propose an adjustment to the June 30, 2004 MFP funding that will result in a reduction in current year MFP funding (June 30, 2005) in the amount of \$ 18,375. Should this occur the DOE would adjust Milestone's MFP funding in fiscal year June 30, 2005 to reflect the difference in the amount of \$ 63,292 between the DOE preliminary report and its final report.

Because of the preliminary nature of the DOE report, no amounts have been recorded in these financial statements that relate to a possible reduction in Milestone's

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

fiscal year end June 30, 2005 MFP funding. The DOE had not completed its review of Milestone's responses to its preliminary audit report at the time this report was finalized. Any increases or decreases in Milestone's June 30, 2005 MFP funding relating to student counts from the fiscal year ended June 30, 2004 will be reported in the June 30, 2005 financial statements.



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Independent Auditor's Report
On Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed In Accordance With
Government Auditing Standards

To the Board of Directors of
Innovators in Milestones, Inc.

We have audited the financial statements of Innovators in Milestones, Inc., (Milestone) as of and for the year ended June 30, 2004 and have issued our report thereon dated December 14, 2004. 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.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Innovators in Milestones, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, BESE, and the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor for the State of Louisiana as a public document.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Metairie, LA
December 14, 2004

INNOVATORS IN MILESTONES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

We have audited the financial statements of Innovators in Milestones, Inc. as of and for the year ended June 30, 2004, and have issued our report thereon dated December 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits outlined in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Louisiana Governmental Auditing Guide. Our audit of the basic financial statements as of June 30, 2004 resulted in an unqualified opinion.

Section I – Summary of Auditor’s Results

- a. Report on Internal Control and Compliance Material to the Financial Statements
- Internal Control
Material Weakness ___ Yes X No Reportable Conditions ___ Yes X No
- Compliance
Compliance Material to Financial Statements ___ Yes X No
- b. Federal awards – Not applicable

Section II – Financial Statement Findings and Questioned Costs

There were no financial statement findings for the year ended June 30, 2004.

Section III – Federal Award Findings and Questioned Costs

Not applicable

Section IV – Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2004.

**INNOVATORS IN MILESTONES, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

Section I – Internal Control and Compliance Material to the Financial Statements:

Not applicable.

Section II – Internal Control and Compliance Material to Federal Awards:

Not applicable.

Section III - Management Letter:

Not applicable.

**INNOVATORS IN MILESTONES, INC.
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2004**

Section I – Internal Control and Compliance Material to the Financial Statements:

There were no current or prior year findings.

Section II – Internal Control and Compliance Material to Federal Awards:

Not applicable.

Section III - Management Letter:

A management letter was not issued in connection with the audit for the year ended June 30, 2004.

**INNOVATORS IN MILESTONES, INC.
INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2004

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Innovators in Milestones, Inc.

We have performed the procedures included in the *Louisiana Audit Guide* and enumerated below, which were agreed to by the management of Innovators in Milestones, Inc. (Milestone) and the Legislative Auditor, State of Louisiana, solely to assist users in evaluating management's assertions about the accompanying performance and statistical data and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE). This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings related to the accompanying schedules are as follows:

PROCEDURES AND FINDINGS

General Fund Instructional and Support Expenditures and Certain Local Revenue Sources (SCHEDULE I)

1. We selected a random sample of 25 transactions and reviewed supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following reported on the schedule:
 - ❖ Total General Fund Instructional Expenditures;
 - ❖ Total General Fund Equipment Expenditures;
 - ❖ Total Taxation Revenues;
 - ❖ Total Local Earnings on Investment in Real Property;
 - ❖ Total State Revenue in Lieu of Taxes;

- ❖ Nonpublic Textbook Revenue; and
- ❖ Nonpublic Transportation Revenue.

We reviewed the supporting documentation for the selected transactions and determined that they were classified correctly and reported in the proper amounts on the appropriate schedule.

Education Levels of Public School Staff (SCHEDULE II)

2. We reconciled the total number of full-time classroom teachers per the schedule “Experience of Public Principals and Full-Time Classroom Teachers” (SCHEDULE IV) to the combined total number of full-time classroom teachers per this schedule and Milestone Academy of Learning Experiences and Skills, Inc.’s supporting payroll records as of October 1, 2003.

No differences were noted.

3. We reconciled the combined total of principals per the schedule “Experience of Public Principals and Full-Time Classroom Teachers” (SCHEDULE IV) to the combined total of principals and assistant principals per this schedule.

No differences were noted. Milestone had one principal and no assistant principals.

4. We obtained a list of full-time teachers, principals, and assistant principals by classification as of October 1, 2003 as reported on the schedule. We traced all 23 teachers to their respective personnel file and determined if their education level was properly classified on the schedule.

The individual’s education level was properly reported.

Number and Type of Public Schools (SCHEDULE III)

5. Innovators in Milestones, Inc. only sponsored an elementary school (grades K-7), - as reported on the schedule. We compared the list of schools (only one school as reported in Schedule III) and grade levels as reported on the Title I Grants to Local Educational Agencies (CFDA 84.010) application and/or the National School Lunch Program (CFDA 10.555) application.

No differences were noted.

Experience of Public Principals and Full-Time Classroom Teachers (SCHEDULE IV)

6. We obtained a list of full-time teachers, principals, and assistant principals by classification as of October 1, 2003 and as reported on the schedule and traced the same sample used in procedure 4 to the individual’s personnel file and determined if the individual’s experience was properly classified on the schedule.

We noted no differences. The individual's experience was properly classified on the schedule.

Public School Staff Data (SCHEDULE V)

7. We obtained a listing of all classroom teachers including their base salary, extra compensation, and ROTC or rehired retiree status as well as full-time equivalent as reported on the schedule and traced all teachers to their personnel file and determined if their salary, extra compensation, and full-time equivalents were properly included on the schedule.

No differences noted.

8. For all 23 teachers, we recalculated the average salaries and full-time equivalents reported in the schedule.

No differences noted.

Class Size Characteristics (SCHEDULE VI)

9. We obtained a list of classes and class size for Milestone as reported on the schedule and reconciled school type classifications to Schedule III data, as obtained in procedure 5. We then traced a sample of ten classes to the October 1st roll books for those classes and determined if the class was properly classified in the schedule.

No differences were noted.

Louisiana Educational Assessment Program (LEAP) for The 21st Century (SCHEDULE VII)

10. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by Milestone.

No differences were noted.

The Graduation Exit Exam for the 21st Century (SCHEDULE VIII)

11. Because this schedule only applies to grades ten and eleven, we did not obtain test scores as provided by the testing authority or reconcile scores as reported by the testing authority to scores reported in the schedule by Milestone.

This schedule was not-applicable for Milestone because the school did not have grades ten or eleven for the year ended June 30, 2004.

The Iowa Tests (SCHEDULE IX)

12. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by Milestone.

No differences were noted. Note that Milestone did not have grade 9 for the year ended June 30, 2004.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of Innovators in Milestones, Inc., the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hienz & Macaluso, LLC

Hienz & Macaluso, LLC
Metairie, LA
December 14, 2004

SCHEDULES REQUIRED BY STATE LAW

SCHEDULE I - **General Fund Instructional and Support Expenditures And Certain Local Revenue Sources**

This schedule includes general fund instructional and equipment expenditures. It also contains local taxation revenue, earnings on investments, revenue in lieu of taxes, and nonpublic textbook and transportation revenue. This data is used either in the Minimum Foundation Program (MFP) formula or is presented annually in the MFP 70% Expenditure Requirement Report.

SCHEDULE II - **Education Levels of Public School Staff**

This schedule includes the certificated and uncertificated number and percentage of full-time classroom teachers and the number and percentage of principals and assistant principals with less than a Bachelor's; Master's; Masters + 30; Specialist in Education; and Ph.D. or Ed.D. degrees. This data is currently reported to the Legislature in the Annual Financial and Statistical Report (AFSR).

SCHEDULE III - **Number and Type of Public Schools**

This schedule includes the number of elementary, middle/junior high, secondary and combination schools in operation during the fiscal year. This data is currently reported to the Legislature in the AFSR.

SCHEDULE IV - **Experience of Public Principals and Full-Time Classroom Teachers**

This schedule includes the number of years of experience in teaching for assistant principals, principals, and full-time classroom teachers. This data is currently reported to the Legislature in the AFSR.

SCHEDULE V - **Public School Staff Data**

This schedule includes average classroom teacher salary using full-time equivalents, including and excluding ROTC and rehired retiree teachers. This data is currently reported to the Legislature in the AFSR.

SCHEDULES REQUIRED BY STATE LAW

SCHEDULE VI

- Class Size Characteristics

This schedule includes the percent and number of classes with student enrollment in the following ranges: 1-20; 21-26; 27-33; and 34+ students. This data is currently reported to the Legislature in the Annual School Report (ASR).

SCHEDULE VII

- Louisiana Educational Assessment Program (LEAP) For the 21st Century

This schedule represents student performance testing data and includes summary scores by district for grades 4 and 8 in each category tested. Scores are reported as Advanced, Proficient, Basic, Approaching Basic, and Unsatisfactory. This schedule includes three years of data.

SCHEDULE VIII

- The Graduation Exit Exam for the 21st Century

This schedule represents student performance testing data and includes summary scores by district for grades 10 and 11 in each category tested. Scores are reported as Advanced, Proficient, Basic, Approaching Basic, and Unsatisfactory. This schedule includes three years of data.

SCHEDULE IX

- The IOWA Tests

This schedule represents student performance testing data and includes a summary score for grades 3, 5, 6, 7 and 9 for each district. The summary score reported is the National Percentile Rank showing relative position or rank as compared to a large, representative sample of students in the same grade from the entire nation. This schedule includes three years of data.

Innovators in Milestones, Inc.							Schedule 1
Milestone SABIS Academy of New Orleans							
New Orleans, Louisiana							
General Fund Instructional and Support Expenditures and Certain Local Revenue Sources For the Year Ended June 30, 2004							
General Fund Instructional and Equipment Expenditures							
General Fund Instructional Expenditures:							
Teacher and Student Interaction Activities:							
Classroom Teacher Salaries					\$612,585		
Other Instructional Staff Activities					\$53,750		
Employee Benefits					\$104,225		
Purchased Professional and Technical Services:					\$141,686		
Instructional Materials and Supplies					\$225,008		
Instructional Equipment							
Total Teacher and Student Interaction Activities							\$1,137,254
Other Instructional Activities							
Pupil Support Activities					\$137,013		
Less: Equipment for Pupil Support Activities							
Net Pupil Support Activities							\$137,013
Instructional Staff Services					\$50,823		
Less: Equipment for Instructional Staff Services							
Net Instructional Staff Services							\$50,823
Total General Fund Instructional Expenditures							\$1,325,090
Total General Fund Equipment Expenditures						\$17,664	
Certain Local Revenue Sources							
Local Taxation Revenue:							
Constitutional Ad Valorem Taxes					0		
Renewable Ad Valorem Tax					0		
Debt Service Ad Valorem Tax					0		
Up to 1% of Collections by the Sheriff on Taxes Other than School Taxes					0		
Sales and Use Taxes					0		
Total Location Taxation Revenue							
Local Earnings on Investment in Real Property:							
Earnings from 16th Section Property					0		
Earnings from Other Real Property					0		
Total Local Earnings on Investment in Real Property							
State Revenue in Lieu of Taxes:							
Revenue Sharing-Constitutional Tax					0		
Revenue Sharing-Other Taxes					0		
Revenue Sharing-Excess Portion					0		
Other Revenue in Lieu of Taxes					0		
Total State Revenue in Lieu of Taxes							
Nonpublic Textbook Revenue					0		
Nonpublic Transportation Revenue					0		

Innovators in Milestones, Inc		Schedule 3	
Milestone SABIS Academy			
New Orleans, LA			
Number and Type of Public Schools For the Year Ended June 30, 2004			
Type	Number		
Elementary	1		
Middle/Jr. High			
Secondary			
Combination			
Total	1		

Innovators in Milestones, Inc.											Schedule 4
Milestone SABIS Academy of New Orleans											
New Orleans, LA											
Experience of Public Principals and Full-Time Classroom Teachers											
As of October 1, 2003											
	0-1 Yr	2-3 Yrs	4-10 Yrs	11-14 Yrs	15-19 Yrs	20-24 Yrs	25+ Yrs	Total			
Assistant Principals								0			
Principals			1					1			
Classroom Teachers	3	6	6	1		1	6	23			
Total	3	6	7	1	0	1	6	24			

Innovators In Milestones, Inc Milestone SABIS Academy of New Orleans			Schedule 5
Public School Staff Data For the Year Ended June 30, 2004			
	All Classroom Teachers		
	Classroom Teachers Excluding ROTC and Retired Retirees		
Average Classroom Teachers' Salary Including Extra Compensation	\$31,231	\$30,268	
Average Classroom Teachers' Salary Excluding Extra Compensation	\$30,343	\$31,167	
Number of Teacher Full-Time Equivalents (FTEs) used in Computation of Average Salaries	23	22	

