

ATTACHMENT G

AMERICAN QUALITY SCHOOLS CORPORATION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

To the Governing Board of
American Quality Schools Corporation
Chicago, Illinois

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of American Quality Schools Corporation, (an Illinois nonprofit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Quality Schools Corporation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statement of financial position, combining statement of activities and schedule of expenses are presented for purposes of additional analysis and are 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014, on our consideration of American Quality Schools Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Quality Schools Corporation's internal control over financial reporting and compliance.

Mulcahy, Pauritsch, Salvador & Co., Ltd.

Orland Park, Illinois
January 31, 2014

January 31, 2014

To the Governing Board of
American Quality Schools Corporation
Chicago, Illinois

We have audited the financial statements of American Quality Schools Corporation for the year ended June 30, 2013, and have issued our report thereon dated January 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated October 11, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by American Quality Schools Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by American Quality Schools Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.



Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 31, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to American Quality Schools Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as American Quality Schools Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governing Board and management of American Quality Schools Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mulcahy, Pauritsch, Salvador & Co., Ltd.

To the Governing Board of
American Quality Schools Corporation
Chicago, Illinois

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS OF APPLICABLE LAWS AND REGULATIONS
PRESCRIBED BY ADMINISTERING AGENCY**

We have examined American Quality Schools Corporation's compliance with the types of compliance requirements provided by its administering agency, the Chicago Public Schools, which are applicable to the American Quality Schools Corporation's Plato Learning Academy. The Chicago Public Schools provided the compliance requirements subject to examination in a memorandum dated July, 2013. Compliance with requirements of applicable laws and regulations prescribed by the administering agency is the responsibility of management. Our responsibility is to express an opinion on American Quality Schools Corporation's compliance based on our examination.

The applicable laws and regulations that were tested included the following, as applicable:

Open Meetings Act (5 ILCS 120/1.01 *et seq.*)
Fingerprint-based Criminal Background Investigations and Checks of the Statewide Sex Offender Database & Statewide Child Murderer and Violent Offender Against Youth Database (105 ILCS 5/10-21.9 & 105 ILCS 5/34-18.5)
Illinois School Student Records Act (105 ILCS 10/1 *et seq.*)
Administering Medication (105 ILCS 5/10-22.21b)
Hazardous Materials Training (105 ILCS 5/10-20.17a)
School Safety Drill Act (105 ILCS 128/1 *et seq.*)
Abused and Neglected Child Reporting Act (325 ILCS 5/1 *et seq.*)
Eye Protection in School Act (105 ILCS 115/0.01 *et seq.*)
Toxic Art Supplies in Schools Act (105 ILCS 135/1 *et seq.*)
Infectious Disease Policies and Rules (105 ILCS 5/10-21.11)
Physical Fitness Medical Emergency Preparedness Act (210 ILCS 74/1 *et seq.*)
Conformance with the following sections of your Contract School Agreement (the "Agreement"):
Section 4. Enrollment - an enrollment process and lottery;
Section 4. Governance and Operation - the school's governance structure;
Section 5. Maintenance of Corporate Status and Good Standing;
Section 5. Facility - the school's facility and ADA compliance;
Section 6. Management and Financial Controls;
Exhibit B. Insurance Requirements - maintenance of required insurance coverage;
Single Audit Act Amendments of 1996 (31 U.S.C. 7501-07), OMB Circular A-133 and OMB Compliance Supplements.



AMERICAN QUALITY SCHOOLS CORPORATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

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**AMERICAN QUALITY SCHOOLS CORPORATION
ADVISORY BOARD
JUNE 30, 2013**

Dr. Michael Bakalis

Vito Bianco

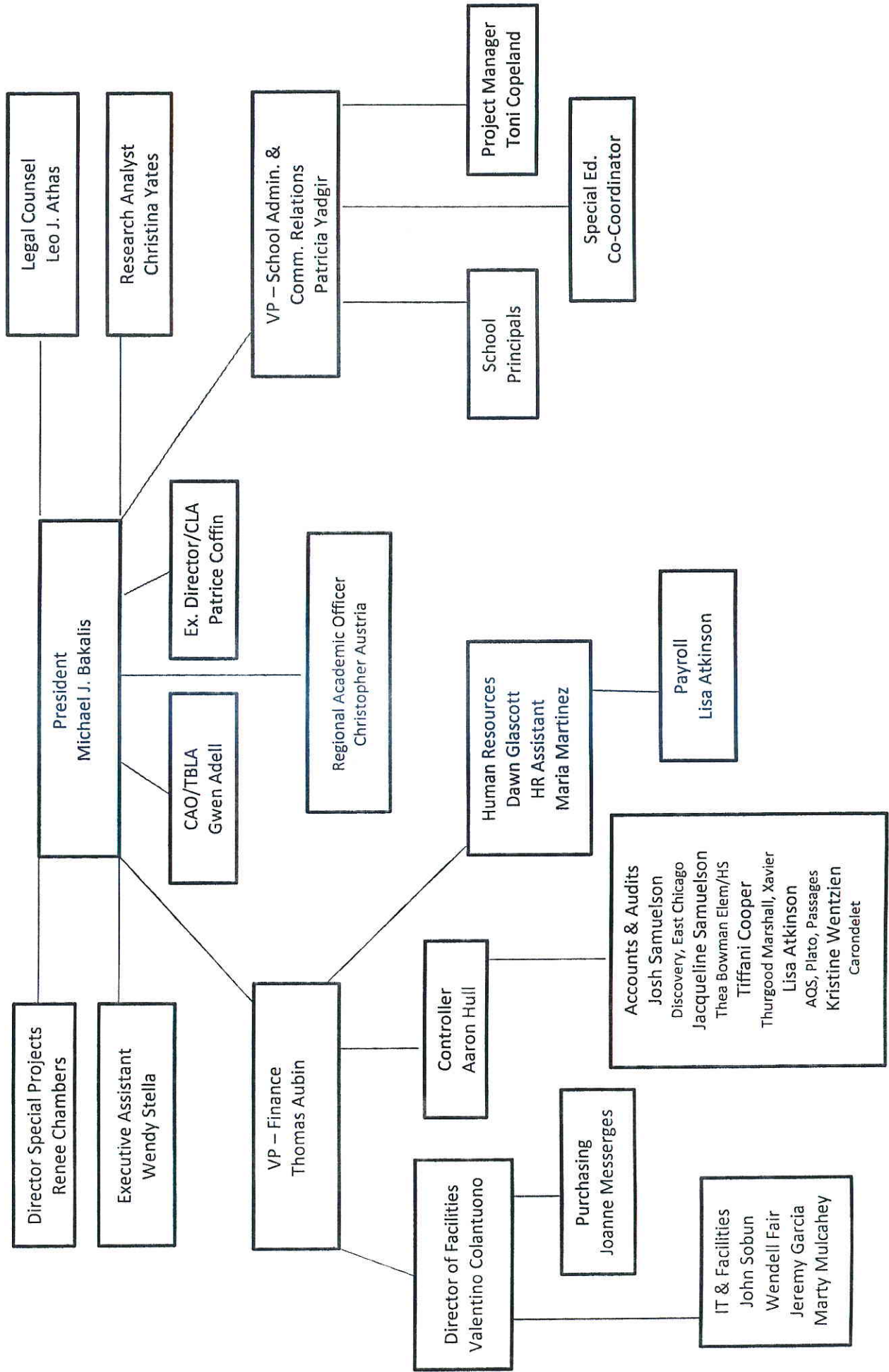
Marlene Golembo

Level Horton

George Nassos

Pam Paul

Thomas Pekras



AMERICAN QUALITY SCHOOLS CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 409,792	\$ 213,474
Receivables:		
Accounts	571,569	430,933
Management fees	106,947	224,895
Prepaid expenses	<u>40,655</u>	<u>117,670</u>
Total current assets	<u>1,128,963</u>	<u>986,972</u>
Property and equipment	<u>1,615,932</u>	<u>1,668,533</u>
Other assets:		
Deposits	<u>56,565</u>	<u>34,466</u>
Total assets	<u><u>\$ 2,801,460</u></u>	<u><u>\$ 2,689,971</u></u>
 LIABILITIES AND NET ASSETS (DEFICIT)		
Current liabilities:		
Checks written in excess of funds on deposit	\$ 7,378	\$ -
Accounts payable	251,758	182,707
Accrued expenses	400,628	362,415
Due to charter schools	349,753	63,867
Line of credit	120,000	40,000
Current portion of accrued lawsuit settlement	45,000	45,000
Current portion of long-term debt	<u>176,844</u>	<u>132,733</u>
Total current liabilities	<u>1,351,361</u>	<u>826,722</u>
Long-term liabilities:		
Accrued lawsuit settlement, less current portion	208,000	253,000
Long-term debt, less current portion	<u>1,481,844</u>	<u>1,444,860</u>
Total long-term liabilities	<u>1,689,844</u>	<u>1,697,860</u>
Total liabilities	3,041,205	2,524,582
Net assets (deficit):		
Unrestricted	<u>(239,745)</u>	<u>165,389</u>
Total liabilities and net assets (deficit)	<u><u>\$ 2,801,460</u></u>	<u><u>\$ 2,689,971</u></u>

See notes to financial statements.

AMERICAN QUALITY SCHOOLS CORPORATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Revenues and support:		
Chicago Public Schools:		
Per capita tuition and other funds	\$ 3,693,042	\$ 2,992,026
Special services	199,445	268,552
Other	68,272	31,002
Grants	-	21,500
Management fees and other fee revenue	2,298,604	2,714,496
Student fees	363,958	325,026
Other	<u>101,110</u>	<u>101,095</u>
Total revenues and support	<u>6,724,431</u>	<u>6,453,697</u>
Expenses:		
Program services	4,544,340	4,252,630
Supporting services	<u>2,585,225</u>	<u>3,009,591</u>
Total expenses	<u>7,129,565</u>	<u>7,262,221</u>
Change in net assets	(405,134)	(808,524)
Net assets at beginning of year	<u>165,389</u>	<u>973,913</u>
Net assets (deficit) at end of year	<u>\$ (239,745)</u>	<u>\$ 165,389</u>

See notes to financial statements.

AMERICAN QUALITY SCHOOLS CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ (405,134)	\$ (808,524)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	326,301	240,017
Gain on sale of equipment	-	(5,793)
Effects of changes in operating assets and liabilities:		
Receivables	(22,689)	(86,933)
Prepaid expenses	77,015	(5,027)
Deposits	(22,099)	(20,077)
Accounts payable and accrued expenses	62,264	61,341
Deferred grant revenue	<u>-</u>	<u>(21,500)</u>
Net cash provided (used) by operating activities	<u>15,658</u>	<u>(646,496)</u>
Cash flows from investing activities:		
Collection of advances receivable	-	65,700
Proceeds from sale of equipment	-	13,000
Purchases of property and equipment	<u>(35,321)</u>	<u>(172,283)</u>
Net cash used by investing activities	<u>(35,321)</u>	<u>(93,583)</u>
Cash flows from financing activities:		
Increase (decrease) in checks issued in excess of funds on deposit	7,378	(46,064)
Proceeds from line of credit	80,000	40,000
Increase in amounts due to charter schools	285,886	30,430
Proceeds from long-term debt	-	310,000
Principal repayments of long-term debt	<u>(157,283)</u>	<u>(79,193)</u>
Net cash provided by financing activities	<u>215,981</u>	<u>255,173</u>
Net Increase (decrease) in cash	196,318	(484,906)
Cash at beginning of year	<u>213,474</u>	<u>698,380</u>
Cash at end of year	<u>\$ 409,792</u>	<u>\$ 213,474</u>

See notes to financial statements.

AMERICAN QUALITY SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

American Quality Schools Corporation (AQS) was established to organize, operate and manage college preparatory K - 12 charter and contract schools. AQS operates Plato Learning Academy under a contract with the Board of Education of the City of Chicago, Illinois (Chicago Public Schools). The original agreement expired June 30, 2013. AQSC and the Board of Education of the City of Chicago are currently negotiating an extension of this agreement through June 2018. The majority of the school's revenue and support comes from Chicago Public Schools through per student fees, grants and other revenue.

In addition to operating Plato Learning Academy, AQS manages one other school in Illinois, five in Indiana, and one in Missouri under annual agreements.

Quality School Maintenance Corporation (QSM), a division of AQS, was created during the year ended June 30, 2012. QSM provides cleaning and maintenance services to educational institutions including charter, private, parochial schools and private colleges and universities in the greater Chicago and Metropolitan Northwest Indiana areas.

B. Basis of Accounting

The financial statements of AQS have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

C. Cash

For purposes of the statement of cash flows, AQS considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

The bank account balances, at times, exceed federally insured limits. AQS has not experienced any losses on such accounts.

D. Accounts and Management Fees Receivable

AQS extends credit to Chicago Public Schools and the other schools that it manages, generally without collateral. Accounts and management fees receivable are reported at their outstanding balance reduced by the allowance for doubtful accounts, if any.

The allowance for doubtful accounts is increased by charges to income and decreased by chargeoffs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the past collection experience of AQS, known and inherent risks of the payors comprising the accounts and management fees receivable balances, adverse situations that may affect the payor's ability to pay, and current economic conditions. Accounts and management fees receivable are charged off when management deems the balance to be uncollectible.

AMERICAN QUALITY SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

Based on a review of outstanding receivables, management determined that an allowance for doubtful accounts was not necessary at June 30, 2013 and 2012.

E. Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair value upon receipt. It is the policy of AQS to generally capitalize items with a cost or estimated fair value in excess of \$1,000. Lesser amounts are expensed. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed as incurred.

F. Contributed Services

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

G. Financial Statement Presentation

AQS reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. As of June 30, 2013 and 2012, all net assets are considered unrestricted.

H. Income Taxes

AQS is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The federal Return of Organization Exempt from Income Tax (Form 990) of AQS is subject to examination by the Internal Revenue Service, generally for three years after the date it was filed.

I. Functional Allocation of Expenses

Salaries and related employee expenses are allocated to program and supporting service functions based on actual time employees spend on each function. The remaining expenses are specifically allocated whenever practical, or are allocated based on salaries or space utilization.

J. 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. Accordingly, actual results could differ from those estimates.

AMERICAN QUALITY SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

K. Date of Management's Review

Management has evaluated subsequent events through January 31, 2014, which is the date the financial statements were available to be issued.

NOTE 2. CASH FLOW INFORMATION

Cash paid for interest during the years ended June 30, 2013 and 2012 was \$0 and \$68,626, respectively.

During the years ended June 30, 2013 and 2012, AQS had noncash investing and financing transactions of \$238,377 and \$814,558, respectively, related to purchases of property and equipment that were financed with long-term debt and capital lease obligations.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 and 2012 was comprised of the following:

	<u>2013</u>	<u>2012</u>
Equipment	\$ 1,422,867	\$ 1,333,296
Leasehold improvements	1,504,740	1,320,613
Less accumulated depreciation	<u>(1,311,675)</u>	<u>(985,376)</u>
Net property and equipment	<u>\$ 1,615,932</u>	<u>\$ 1,668,533</u>

NOTE 4. ACCRUED LAWSUIT SETTLEMENT

During the year ended June 30, 2011, AQS entered into a settlement agreement that is payable through October, 2039. The outstanding balance due at June 30, 2013 and 2012 was \$253,000 and \$298,000, respectively.

Future settlement payments required under the agreement in years ending June 30 are as follows:

2014	\$ 45,000
2015	8,000
2016	8,000
2017	8,000
2018	8,000
Thereafter	<u>176,000</u>
Total	<u>\$ 253,000</u>

AMERICAN QUALITY SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 5. LINE OF CREDIT

AQS entered into a line of credit agreement with a bank for up to \$300,000. The agreement expired in August, 2012. AQS is currently negotiating terms of a new agreement. AQS continues to operate under the expired terms of the agreement. Interest is payable monthly at a variable rate equal to the lender's index (5.00%) plus 0.50% with a floor of 5.50%. The line of credit is collateralized by assets of AQS. The outstanding balance due at June 30, 2013 and 2012 was \$120,000 and \$40,000 respectively.

NOTE 6. LONG-TERM DEBT

Long-term debt at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Note payable to the Illinois Facility Fund, due in monthly installments of \$5,525 including interest at 5%, with the final payment due in November, 2027. The note is collateralized by leasehold improvements.	\$ 680,156	\$ 514,558
Note payable to the Illinois Facility Fund, due in monthly installments of \$6,832 including interest at 5.31%, with the final payment due in January, 2019. The note is collateralized by leasehold improvements. The interest rate will be adjusted in accordance with the agreement in January, 2014.	395,356	454,624
Uncollateralized notes payable to three members of the governing board with an interest rate of 5%, payable upon maturity. The outstanding accrued interest and principal balance is due June 1, 2015. Accrued interest at June 30, 2013 and 2012 was \$- and \$0, respectively.	310,000	310,000
Note payable to the Illinois Facility Fund, due in monthly installments of \$5,661 including interest at 5%, with the final payment due in February, 2017. The note is collateralized by equipment, furnishings, and fixtures purchased with the loan.	227,169	282,244
Note payable to a finance company, due in monthly installments of \$1,693 including interest at 7.7%, with the final payment due in August, 2015. The note is collateralized by specific equipment.	40,412	-

AMERICAN QUALITY SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Note payable to a finance company, due in monthly installments of \$953 including interest at 8.05%, with the final payment due in January, 2014. The note is collateralized by specific equipment.	<u>5,595</u>	<u>16,167</u>
Total	<u>\$ 1,658,688</u>	<u>\$ 1,577,593</u>

Future maturities of long-term debt in years ending June 30 are as follows:

2014	\$ 159,025
2015	471,483
2016	169,959
2017	156,092
2018	117,589
Thereafter	<u>544,128</u>
Total	<u>\$ 1,618,276</u>

NOTE 7. INTEREST EXPENSE

Interest expense for the years ended June 30, 2013 and 2012 was \$92,293 and \$68,626, respectively.

NOTE 8. LEASING ARRANGEMENTS

AQS conducts its operations from facilities that are leased under operating leases that expire through June, 2023. Rent expense for the years ended June 30, 2013 and 2012 was \$619,555 and \$611,737, respectively.

Future minimum rental payments required under these leases in years ending June 30 are as follows:

2014	\$ 620,803
2015	588,183
2016	598,575
2017	576,353
2018	585,382
Thereafter	<u>1,517,185</u>
Total	<u>\$ 4,486,481</u>

AMERICAN QUALITY SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 9. EMPLOYEE BENEFIT PLAN

Employees of AQS may participate in an Internal Revenue Code Section 403(b) retirement savings plan. The plan is funded solely by employee contributions pursuant to a salary reduction agreement.

SUPPLEMENTARY INFORMATION

AMERICAN QUALITY SCHOOLS CORPORATION
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	American Quality Schools	Quality School Maintenance Corporation	Plato Learning Academy
ASSETS			
Current assets:			
Cash	\$ 472	\$ -	\$ 409,320
Receivables:			
Accounts	496,206	66,069	104,937
Management fees	106,947	-	-
Prepaid expenses	<u>38,349</u>	<u>-</u>	<u>2,306</u>
Total current assets	<u>641,974</u>	<u>66,069</u>	<u>516,563</u>
Property and equipment	<u>82,051</u>	<u>-</u>	<u>1,533,881</u>
Other assets:			
Deposits	<u>36,488</u>	<u>-</u>	<u>20,077</u>
Total assets	<u>\$ 760,513</u>	<u>\$ 66,069</u>	<u>\$ 2,070,521</u>
LIABILITIES AND NET ASSETS (DEFICIT)			
Current liabilities:			
Checks issued in excess of funds on deposit	\$ -	\$ 7,378	\$ -
Accounts payable	101,480	99,717	146,204
Accrued expenses	28,360	-	372,268
Due to charter schools	349,753	-	-
Line of credit	120,000	-	-
Current portion of accrued lawsuit settlement	45,000	-	-
Current portion of long-term debt	<u>5,595</u>	<u>-</u>	<u>171,249</u>
Total current liabilities	<u>650,188</u>	<u>107,095</u>	<u>689,721</u>
Long-term liabilities:			
Accrued lawsuit settlement, less current portion	208,000	-	-
Long-term debt, less current portion	<u>310,000</u>	<u>-</u>	<u>1,171,844</u>
Total long-term liabilities	<u>518,000</u>	<u>-</u>	<u>1,171,844</u>
Total liabilities	1,168,188	107,095	1,861,565
Net assets (deficit):			
Unrestricted	<u>(407,675)</u>	<u>(41,026)</u>	<u>208,956</u>
Total liabilities and net assets (deficit)	<u>\$ 760,513</u>	<u>\$ 66,069</u>	<u>\$ 2,070,521</u>

<u>Eliminations</u>	<u>Totals</u>	
	<u>2013</u>	<u>2012</u>
\$ -	\$ 409,792	\$ 213,474
(95,643)	571,569	430,933
-	106,947	224,895
<u>-</u>	<u>40,655</u>	<u>117,670</u>
<u>(95,643)</u>	<u>1,128,963</u>	<u>986,972</u>
<u>-</u>	<u>1,615,932</u>	<u>1,668,533</u>
<u>-</u>	<u>56,565</u>	<u>34,466</u>
<u>\$ (95,643)</u>	<u>\$ 2,801,460</u>	<u>\$ 2,689,971</u>

\$ -	\$ 7,378	\$ -
(95,643)	251,758	182,707
-	400,628	362,415
-	349,753	63,867
-	120,000	40,000
-	45,000	45,000
<u>-</u>	<u>176,844</u>	<u>132,733</u>
<u>(95,643)</u>	<u>1,351,361</u>	<u>826,722</u>
-	208,000	253,000
<u>-</u>	<u>1,481,844</u>	<u>1,444,860</u>
<u>-</u>	<u>1,689,844</u>	<u>1,697,860</u>
(95,643)	3,041,205	2,524,582
<u>-</u>	<u>(239,745)</u>	<u>165,389</u>
<u>\$ (95,643)</u>	<u>\$ 2,801,460</u>	<u>\$ 2,689,971</u>

AMERICAN QUALITY SCHOOLS CORPORATION
 COMBINING STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	American Quality Schools	Quality School Maintenance Corporation	Plato Learning Academy
Revenues and support:			
Chicago Public Schools:			
Per capita tuition and other funds	\$ -	\$ -	\$ 3,693,042
Special services	-	-	199,445
Other	23,573	-	44,699
Grants	-	-	-
Management fees and other fee revenue	2,281,905	542,948	-
Student fees	-	-	363,958
Other	<u>65,608</u>	<u>-</u>	<u>35,502</u>
Total revenues and support	<u>2,371,086</u>	<u>542,948</u>	<u>4,336,646</u>
Expenses:			
Program services	587,475	511,071	3,603,839
Supporting services	<u>2,198,433</u>	<u>62,658</u>	<u>692,338</u>
Total expenses	<u>2,785,908</u>	<u>573,729</u>	<u>4,296,177</u>
Change in net assets	(414,822)	(30,781)	40,469
Net assets (deficit) at beginning of year	<u>7,147</u>	<u>(10,245)</u>	<u>168,487</u>
Net assets (deficit) at end of year	<u><u>\$ (407,675)</u></u>	<u><u>\$ (41,026)</u></u>	<u><u>\$ 208,956</u></u>

<u>Eliminations</u>	<u>Totals</u>	
	<u>2013</u>	<u>2012</u>
\$ -	\$ 3,693,042	\$ 2,992,026
-	199,445	268,552
-	68,272	31,002
-	-	21,500
(526,249)	2,298,604	2,714,496
-	363,958	325,026
<u>-</u>	<u>101,110</u>	<u>101,095</u>
<u>(526,249)</u>	<u>6,724,431</u>	<u>6,453,697</u>
(158,045)	4,544,340	4,252,630
<u>(368,204)</u>	<u>2,585,225</u>	<u>3,009,591</u>
<u>(526,249)</u>	<u>7,129,565</u>	<u>7,262,221</u>
-	(405,134)	(808,524)
<u>-</u>	<u>165,389</u>	<u>973,913</u>
<u>\$ -</u>	<u>\$ (239,745)</u>	<u>\$ 165,389</u>

AMERICAN QUALITY SCHOOLS CORPORATION
SCHEDULES OF EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Salaries	\$ 3,707,997	\$ 3,830,648
Benefits	687,262	720,657
Books and supplies	72,874	216,726
Consulting	1,991	19,464
Depreciation	326,301	240,017
Insurance	31,572	39,686
Interest	92,293	68,626
Marketing	16,642	11,908
Miscellaneous	9,820	71,526
Occupancy	619,555	611,737
Office	175,362	149,963
Postage	9,123	9,243
Professional fees	99,537	124,489
Repairs and maintenance	595,384	509,774
Student activities	442,239	451,257
Telephone	75,954	53,478
Travel and conferences	76,612	61,686
Utilities	<u>89,047</u>	<u>71,336</u>
Total expenses	<u>\$ 7,129,565</u>	<u>\$ 7,262,221</u>

To the Governing Board of
American Quality Schools Corporation
Chicago, Illinois

**INDEPENDENT AUDITOR'S 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**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of American Quality Schools Corporation (an Illinois nonprofit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

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 deficiency described below to be a material weakness.

Journal entries prepared and recorded do not show evidence that they are reviewed and approved by appropriate personnel.



Management's response:

Although journal entries have not been traditionally reviewed and approved prior to entry into the books of account, a compensating control in place is the monthly review of the financial statements relative to budget and prior year between the VP-Finance and Controller of AQS.

Compliance and Other Matters

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

American Quality Schools Corporation's Response to the Finding

American Quality Schools Corporation's response to the finding identified in our audit is described above. American Quality Schools Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Mulcahy, Pauritsch, Salvador & Co., Ltd.



*Certified Public Accountants/
Business and Personal Consultants*

To the Governing Board of
American Quality Schools Corporation
Chicago, Illinois

In planning and performing our audit of the financial statements of American Quality Schools Corporation as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered American Quality Schools Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Quality Schools Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of American Quality Schools Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 following deficiency in American Quality Schools Corporation's internal control to be a material weakness:

Journal entries prepared and recorded are not reviewed and approved by appropriate personnel.

This communication is intended solely for the information and use of management, the Governing Board and others within American Quality Schools Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

Mulcahy, Pauritsch, Salvador & Co., Ltd.

Orland Park, Illinois
January 31, 2014

