B30053

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

AUDIT REPORT

OF

ANDREW J. BROWN ACADEMY

MARION COUNTY, INDIANA

July 1, 2004 to June 30, 2006

FILED
06/27/2007

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SCHEDULE OF OFFICIALS

Office	Official	Term
Treasurer	Joseph Davis	07-01-04 to 06-30-07
President of the School Board	Thomas Brown	07-01-04 to 06-30-07

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE ANDREW J. BROWN ACADEMY, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Andrew J. Brown Academy (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated May 24, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget

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

Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

May 24, 2007

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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 OFFICIALS OF THE ANDREW J. BROWN ACADEMY, MARION COUNTY, INDIANA

We have audited the financial statements of the Andrew J. Brown Academy (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated May 24, 2007. 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 School Corporation's 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 School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 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 School Corporation's 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 24, 2007

ANDREW J. BROWN ACADEMY
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

Assets	Governmental Activities
Current assets:	
Cash and investments	$ 678,925
Net Assets	
Unrestricted	$ 678,925

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

ANDREW J. BROWN ACADEMY
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

Assets	Governmental Activities
Current assets:	
Cash and investments	$ 761,693
Net Assets	
Unrestricted	$ 761,693

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

ANDREW J. BROWN ACADEMY
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts: Total
Governmental activities:				
Contracted service fee	$ 3,119,187	$ 27,742	$ 75,274	$ (3,016,171)
Support services	1,366	-	-	(1,366)
Nonprogrammed charges	3,758	-	-	(3,758)
Total governmental activities	$ 3,124,311	$ 27,742	$ 75,274	(3,021,295)
	General receipts:			
	Property taxes			1,008,881
	Other local sources			50,333
	State aid			1,744,291
	Grants and contributions not restricted			321,754
	Total general receipts			3,125,259
	Change in cash and investments			103,964
	Net assets - beginning			574,961
	Net assets - ending			$ 678,925

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

ANDREW J. BROWN ACADEMY
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

		Program Receipts		Net (Disbursement) Receipts
Functions/Programs	Disbursements	Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Contracted service fee	$ 4,227,389	$ 32,932	$ 127,950	$ (4,066,507)
Support services	235	-	-	(235)
Nonprogrammed charges	3,267	-	-	(3,267)
Total governmental activities	$ 4,230,891	$ 32,932	$ 127,950	(4,070,009)
	General receipts:			
	Property taxes			1,248,160
	Other local sources			80,471
	State aid			2,342,011
	Grants and contributions not restricted			482,135
	Total general receipts			4,152,777
	Change in cash and investments			82,768
	Net assets - beginning			678,925
	Net assets - ending			$ 761,693

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

ANDREW J. BROWN ACADEMY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Other	Totals
Receipts:			
Local sources	$ 1,064,104	$ 22,852	$ 1,086,956
State sources	1,934,949	-	1,934,949
Federal sources	147,174	59,196	206,370
Total receipts	3,146,227	82,048	3,228,275
Disbursements:			
Current:			
Contracted service fee	3,030,800	88,387	3,119,187
Support services	1,366	-	1,366
Nonprogrammed charges	3,758	-	3,758
Total disbursements	3,035,924	88,387	3,124,311
Excess (deficiency) of total receipts over (under) total disbursements	110,303	(6,339)	103,964
Cash and investments - beginning	568,622	6,339	574,961
Cash and investments - ending	$ 678,925	-	$ 678,925

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

ANDREW J. BROWN ACADEMY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Other	Totals
Receipts:			
Local sources	$ 1,332,095	$ 28,796	$ 1,360,891
State sources	2,426,018	-	2,426,018
Federal sources	413,790	112,960	526,750
Total receipts	4,171,903	141,756	4,313,659
Disbursements:			
Current:			
Contracted service fee	4,107,171	120,218	4,227,389
Support services	235	-	235
Nonprogrammed charges	3,267	-	3,267
Total disbursements	4,110,673	120,218	4,230,891
Excess of total receipts over total disbursements	61,230	21,538	82,768
Cash and investments - beginning	678,925	-	678,925
Cash and investments - ending	$ 740,155	$ 21,538	$ 761,693

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

ANDREW J. BROWN ACADEMY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: Andrew J. Brown Academy

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

Nature of Operation

The charter for the School Corporation was received on May 20, 2003, and the school opened for the 2003-2004 school year. The Board of Directors entered into a Management Agreement (Agreement) with National Heritage Academies, Inc., (NHA) which requires NHA to provide management, operation, administration, accounting, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students. Per the Agreement, NHA leases the facility in which the school operates to the School Corporation. NHA is subject to the oversight and authority of the School Corporation's Board of Directors.

Under the terms of the Agreement, NHA receives all School Corporation revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the school as compensation for management services rendered. The Agreement is effective through June 2010, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the School Corporation or NHA.

Joint Venture

The School Corporation is a participant with 21st Century Charter School, 21st Century Charter School at Fountain Square, 21st Century Charter School of Gary, Campagna Academy, Charles A. Tindley Accelerated School, Charter School of the Dunes, Christel House Academy, Community Montessori, East Chicago Urban Enterprise, Flanner House Elementary School, Galileo Charter School, Gary Lighthouse Charter School, Indianapolis Lighthouse Charter School #1, Indianapolis Metropolitan Career Academy #1, Indianapolis Metropolitan Career Academy #2, Irvington Community School, Joshua Academy, KIPP Indianapolis College Preparatory, New Community School, Options Charter School of Carmel, Rural Community Academy, Signature School, Southeast Neighborhood School of Excellence, Thea Bowman Leadership Academy, Timothy L. Johnson Academy, and Veritas Academy in a joint venture to operate the Virtual Special Education Cooperative (Cooperative) which was created to provide needed special programs and services, supplies, materials and equipment, and facilities for identified students with disabilities. The School Corporation is obligated by contract to remit annually the federal allocation received for special education assistance to supplement the Cooperative. Complete financial statements for the Cooperative can be obtained from Ball State University, Muncie, Indiana.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Capital Assets

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

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

5. Equity Classification

Government-Wide Statements

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

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

Fund Financial Statements

Governmental fund equity is classified as fund balance..

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

II. Detailed Notes on All Funds

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2006, the bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

III. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Contracted Service Fee

NHA received as remuneration for its services an amount equal to the total revenue received by the School Corporation from all revenue sources per the Agreement (see Note I). During the 2004-2005 and 2005-2006 fiscal years, NHA received $3,119,187 and $4,227,389, respectively, as their contracted service fee.

BASIS FOR ACCOUNTING RECORDS

Andrew J. Brown Academy (School Corporation) entered into a Management Agreement with an educational management organization, National Heritage Academies (NHA) of Grand Rapids, Michigan, in 2003. The Management Agreement calls for NHA to provide the operation, administration, management, and educational program at the School Corporation, including all aspects of the accounting operations. The Management Agreement also states NHA will maintain the accounting records of the School Corporation and will present financial information and reports in accordance with the uniform accounting principles prescribed by the State Board of Education and State Board of Accounts. However, the Academy's records and financial statements were maintained and reported on the accrual basis of accounting. The method of reporting for Indiana public school corporations to the Indiana Department of Education provides for fund accounting on a cash basis, where receipts are recorded when received and disbursements are recorded when paid.

The system as presented herein embraces double entry accounting but is not on an accrual basis. That is, revenue is not recognized until actually received and expenditures are not recognized until the cash disbursements are made. The concept of profit accountability and the necessity to properly match revenue with the expense of generating the revenue typically present in commercial accounting systems is not pertinent to school accounting. Instead, emphasis is placed on the disclosure of dollar accountability and the matching of actual expenditures with planned expenditures as presented in the school budget.

In summary, emphasis shifts from accounting practices concerning the matching of costs and revenues toward techniques designed to account for and control the expenditure of funds in accordance with predetermined plans as shown by the budget adopted by the school board. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 5-11-1-2 states in part: "The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following: (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe."

ORIGINAL SUPPORTING DOCUMENTATION

NHA maintains two bank accounts related to the activity of the School Corporation. One bank account is the School Corporation's general account where the daily revenue of the School Corporation is deposited. The other is the School Board's Discretionary account where NHA deposits an amount not less than 2% of the current year's revenues according to the Management Agreement. The Discretionary account is to be used by the School Board at any time. We requested NHA provide us with the original supporting documentation for all disbursements from both bank accounts.

Disbursements from the School Corporation's general account were made when NHA generated an electronic transfer into the NHA bank account. Disbursements for the daily operations of the School Corporation were then made by NHA on behalf of the School Corporation from NHA's private bank account. Every six months, NHA generated an invoice of the contracted service fees to document the disbursements made on behalf of the School Corporation's activities. The position of NHA was that the supporting documentation related to the expenditures made on behalf of the School Corporation was private records and as such, were not provided for audit.

The supporting documentation provided for the 10 disbursements from the Discretionary account during the audit period were photocopies of receipts and/or paid invoices. No original receipts or invoices were provided. Part of the document being photocopied in some instances, was covered up or too blurry to be legible.

Not providing the original receipts, invoices, etc., could allow for improper payments to be disbursed and go undetected.

A similar comment appeared in the prior Report B25548.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEACHERS' AND PUBLIC EMPLOYEES' RETIREMENT SYSTEM PARTICIPATION

The School Corporation's educational management organization (EMO) NHA provided teachers and administrators at the School with retirement benefits through private retirement plans. The Management Agreement stated the retirement benefits shall be based upon eligibility and other requirements which are the same or substantially similar to Indiana's Teachers' Retirement Fund (TRF) and Public Employee Retirement Fund (PERF). However, Indiana Code and the Charter Agreement between the Mayor of the Consolidated City of Indianapolis and Andrew J. Brown Academy, Inc., require the School Corporation to participate in TRF and PERF.

NHA Officials indicated they participated in a private plan because an attorney for TRF stated in a letter dated July 17, 2002, that private employees could not participate in a public employee retirement fund. However, the letter presented for audit states that the author was not taking the position that under no circumstances could a teacher employed by an EMO who teaches at a charter school never participate in TRF. The letter states in part that: ". . . the IRS should first offer a ruling or interpretation before TRF enrolls EMO employees." NHA has not produced a ruling or documentation from the Internal Revenue Service (IRS) supporting NHA's interpretation of the relevant IRS provisions.

Indiana Code 20-24-6-7(a) states: "A charter school shall participate in the following:

(1) The Indiana state teachers' retirement fund in accordance with IC 5-10.4.

(2) The public employees' retirement fund in accordance with IC 5-10.3."

The Charter Agreement dated May 20, 2003, between The Mayor of the Consolidated City of Indianapolis, Marion County, Indiana, and Andrew J. Brown Charter School, Inc., states in Section 8.5: "The Organizer shall participate in the Indiana state teachers' retirement fund in accordance with IC 21-6.1 and the public employees' retirement fund in accordance with IC 5-10.3."

OFFICIAL BOND

The School Corporation's Treasurer was not covered by an individual surety bond. NHA had obtained a public employee dishonesty policy covering all employees of the School. However, the persons required by law to be individually bonded were specifically not covered under the policy. The public employee dishonesty policy in existence was not filed with the Marion County Recorder's Office.

A similar comment appeared in prior Report B25548.

For each school year commencing July l, the treasurer of the school corporation, and the deputy treasurer if one is appointed, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; approved by the governing body of the school corporation, and filed and recorded in the office of the county recorder within ten (10) days after approval, IC 5-4-1. No charge is made for recording official bonds, IC 36-2-7-10.

Whenever deemed necessary to bond any other employee of a school corporation, the governing body may bond or cause to be bonded such employee or employees by either individual or blanket bonds conditioned upon faithful performance of duties, and in amounts and with surety approved by the school board. We recommended bond coverage for any employee handling funds. A blanket bond should not include any officer, deputy or employee for whom an individual bond is required by statute. Individual bonds are required for the school corporation treasurer and the deputy treasurer. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

RECEIPT ISSUANCE

Receipts were not always issued for monies collected. Receipts written at the School during the months of November and December 2005 totaled $2,003. Deposits made into the General bank account by School Corporation personnel for the same two months totaled $24,561. Therefore, receipts were not written for collections of $22,558. No receipts were written by NHA for any electronically transferred distributions deposited into the General bank account. A similar comment appeared in the prior Report B25548.

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

The form (receipt in duplicate form 517) is to be prenumbered by the printing supplier in duplicate, five receipts to the page. A receipt must be written on the form each time any money is received by the school corporation, regardless of whether it is in the form of cash, check, money order, bank card/credit card, EFT (all on which must be indicated as payment type and amount) or other negotiable instrument. The original, signed by the treasurer of the school corporation, is to be issued to the person paying the money. The duplicate is punched for containing in a post binder and serves as a permanent register of receipts. It also serves as a source document for posting to the Ledger of Receipts, the Fund Ledger and to the Treasurer's Daily Balance of Cash and Depositories Record. In the case of county or state distribution of school monies, it is not necessary to mail the original to the distributing agency. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COLLECTION OF AMOUNTS DUE

The School Corporation did not always collect fees for textbook rental or for lunches served to students. Each student had an account established for lunches and monies paid for meals were added to the account balance and when a meal was served the price of the meal was deducted. A student was to stop receiving meals according to NHA's meal collection policy, if the account balance exceeded $20 due.

However, the food service vendor contracted by NHA to provide meal services for the audit period continued to serve meals to students regardless of the account balance. We noted at June 30, 2006, 166 students owed more than $20 (approximately 29% of the School's enrollment), including one student who owed $371.25. The total outstanding school lunch balance due at June 30, 2006, was $19,875.

Three hundred twenty-four students were not eligible to receive textbook assistance for textbook rental and therefore were charged a textbook rental fee based on the student's grade level. Two hundred sixty-one students (81%) of those assessed a fee, did not pay anything resulting in an amount owed at June 30, 2006, of $19,587.22.

NHA wrote off accounts determined to be uncollectible per the established policies for lunches. Write-offs were to occur after a student had been removed from receiving meals due to the balance owed, the parent had been contacted by letter and subsequently by telephone, and the parent refused to pay. No other attempts at collection (collection agencies, small claims court, etc.) were made other than the letters and phone calls. A detailed listing of all accounts written off during the audit period was not maintained. The amounts written off were not formally approved by the School Corporation's Board of Directors during a public meeting because the write-off function was considered part of the responsibilities of NHA according to the contract for management services. No textbook rental fees were written off as NHA did not have formally documented account write-off procedures.

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

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SCHOOL FOOD VERIFICATIONS OF ELIGIBILITY

The School Corporation test-checked the validity of information provided on the applications for free and reduced-priced meals during the 2005-2006 school year. The results of the test-checks, which were reported to the Indiana Department of Education in accordance with 7CFR 245.6(a), are as follows:

Number of Approved Applications	354
Number of Approved Applications Verified	8
Method of Selection	Random selection
Error Rate of Items Verified	50%

An "error" for purposes of the test-check was an application that could not be verified by the program participant with requested "income verification" information (i.e., paycheck stub, W-2, etc.). Any program participant who was found to have an application that could not be verified was dropped from the free and reduced-price meal program.

Officials should request a written position from the Indiana Department of Education stating whether the corrective action taken was sufficient or if additional verifications need to be performed when high incidences of errors in test sample verifications are noted. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

PRESCRIBED FORMS

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

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

A similar comment appeared in the prior Report B25548.

NHA used internally generated forms, some of which were submitted to the State Board of Accounts for approval. However, the forms submitted were not approved. Also, rather than Form 517 - Receipt in Duplicate, a generic receipt purchased from an office supply store was sometimes used at the School. The receipts were not issued in sequential date or numeric order. Receipts written in November and December 2005, were found commingled in two different books rather than issued consecutively from one book.

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

LACK OF SEPARATE FUNDS

The School Corporation received Federal and State grants and distributions; however, separate funds were not used to account for all of the monies received. A General Fund, School Lunch Fund, and five grant funds were reported on the bi-annual report, Form 9. Separate funds for Special Education Preschool and Textbook Rental financial activities were not reported. The receipts and disbursements related to these activities were commingled in the General Fund. A similar comment appeared in the prior Report B25548.

As a result, commingling the financial activity of the Special Education Preschool and Textbook Rental funds in the General Fund does not allow for the determination whether these monies were spent on allowable programs or activities.

Indiana Code 20-40-4-3 states: "To implement IC 20-35-4-9 and IC 20-26-5-1, each school corporation shall establish a special education preschool fund."

Indiana Code 20-40-4-4 states: "The fund consists of the following: (1) The levy. (2) Distributions to the school corporation from the state under IC 20-20-34." The Fund may only be used for special education programs for preschool age children as required under IC 20-35-4-9.

The Textbook Rental Fund, designated Fund Number 090 in the prescribed accounting system when established in the school corporation account, is to be used to record all receipts of fees collected for rent of textbooks and workbooks furnished to students; also, to record all disbursements for purchase of textbooks, for repair of textbooks and for workbooks to be used with rented textbooks furnished to students for a designated fee. Disbursements from the fund may be made without appropriation or the application of other laws relating to budgets of municipal corporations. A detail of the receipt and expenditure accounts will be found in Parts 4 and 5. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 3)

Indiana Code 5-11-1-2 states in part: "The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following: (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe."

SALES TAX

Indiana state sales tax was paid for some purchases. We noted a total of $1,685 in sales tax paid out of the Board's Discretionary bank account and for purchases made by NHA for the Title I program.

NHA, as a for-profit corporation, might have sales and property taxes considerations. The School Corporation utilized the option to contract for services with an EMO, including services for purchasing supply type items. However, if the School Corporation, with an Indiana tax exempt status, were to make purchases in the School Corporation's name rather than contract to have the EMO make the purchase for them, the School Corporation would not be required to pay such taxes.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE ANDREW J. BROWN ACADEMY, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Andrew J. Brown Academy (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation'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 Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 24, 2007

ANDREW J. BROWN ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
National School Lunch Program	10.555			
		FY 2004-05	$ 58,044	$ -
		FY 2005-06	-	111,638
Total for federal grantor agency			58,044	111,638
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		05-9615	141,526	52,530
		06-9615	-	139,065
Total for program			141,526	191,595
Charter Schools	84.282			
		FY 2003-04	35,880	-
		FY 2004-05	81,880	19,620
		FY 2005-06	-	155,000
Total for program			117,760	174,620
State Grants for Innovative Programs	84.298			
		05-053	-	3,691
Education Technology State Grants	84.318			
		FY 2005-06	1,503	2,791
Improving Teacher Quality State Grants	84.367			
		04-052	22,027	34,112
Total for federal grantor agency			282,816	406,809
Total federal awards expended			$ 340,860	$ 518,447

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

ANDREW J. BROWN ACADEMY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Andrew J. Brown Academy (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

ANDREW J. BROWN ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee?	no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

ANDREW J. BROWN ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

ANDREW J. BROWN ACADEMY
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2007, with Joseph Davis, Treasurer; Greg Lambert, Leslie Cummings, and Jeff Ratuszny, National Heritage Academies; and Thelma Wyatt, Principal. The official response has been made a part of this report and may be found on pages 31 through 34.

National Heritage Academies®

May 24, 2007

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204-2765

To Whom It May Concern:

On May 1, 2007, Todd Caldwell, Auditor in Charge for the Indiana State Board of Accounts ("ISBA"), provided a preliminary draft of the "Audit Results and Comments" report regarding the audit recently concluded on the 2004-05 and 2005-06 records for the Andrew J. Brown Charter Academy ("AJB") to Joseph H. Davis, the Board Treasurer.

The purpose of this letter is to provide responses to each proposed finding in the Audit Results and Comments report.

1. Basis for Accounting Records

   We agree that the Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations ("the Manual"), Chapter 1 embraces double entry accounting but is not on an accrual basis. Instead emphasis is placed on the disclosure of dollar accountability and the matching of actual expenditures with planned expenditures as presented in the school budget.

   The auditor is correct in stating that AJB's accounting records are maintained on a modified accrual basis of accounting and its' financial statements are presented on a modified accrual basis in accordance with the Government Accounting Standards Board Statement No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*".

   While the accounting records are maintained on a modified accrual basis for AJB, the budgets are also prepared on this same basis. This allows the school to properly match actual expenditures with planned expenditures and maintains the accountability and comparability to the budget approved by the AJB Board. We believe that maintaining the accountability and comparability to the budget is the emphasis of the Manual and this has been achieved for AJB.

2. Original Supporting Documentation

   The auditor is correct that we provided copies of all requested receipts and/or paid invoices. While we did not note any of the copies as being difficult to read, we would have been glad to recopy or provide originals of the documents, if this issue had been communicated to us during the audit.

3. Teachers' and Public Employees' Retirement System Participation

   The audit report states that National Heritage Academies ("NHA") has enrolled the teachers in a private retirement plan due to a letter received from the TRF attorney and that NHA has not produced a revenue ruling or documentation from the IRS supporting their interpretation of the relevant IRS provisions.

   While we agree that a private letter ruling would clarify this issue, we believe that the letter must be requested by the TRF, not by NHA. In his letter, the TRF's attorney states that in his opinion, "allowing teachers whose salary and benefits are paid by private corporations or companies will jeopardize TRF's determination as a qualified governmental plan. The Fund could petition the IRS for a private letter ruling on the subject." The attorney concludes his summary as follows, "I do not believe teachers who are employed by EMO's can be members of either fund (TRF or PERF) without jeopardizing the funds' status as qualified governmental retirement plans."

4. Official Bond

   We agree with the audit comment. NHA had obtained a public employee dishonesty policy covering the School Board and its Treasurer, however after reviewing IC 20-26-4-1 and IC 20-26-4-5, we realize that the School Board must appoint a Treasurer, who is not a member of the governing body, and obtain a bond for this individual. We are in the process of remedying this situation.

5. Receipt Issuance

   We agree with the finding and in the future, we will provide the school personnel with pre-numbered receipt forms and provide instructions on how to properly utilize the receipt forms going forward.

6. Collection of Amounts Due

   During fiscal 2007, a new lunch provider was selected and their program implemented at AJB. As part of the new program, the lunch provider will be held accountable for uncollectible balances if the lunch collection procedures are not strictly administered. A detailed listing of all balances written-off will be maintained.

   The textbook collection procedures have recently been enhanced to provide for additional contact with the parents and to increase the collection of the outstanding balances.

The individual balances written off on both of these programs were not substantial enough to warrant collection efforts through either a collection agency or small claims court.

Further, losses from non-payment for the lunch program and the textbook programs are a reduction in the management fee not of services provided to the school in accordance with the Management Agreement.

7. <u>School Food Verification of Eligibility</u>

While we complied with the school food verification test of eligibility and properly reported our findings and corrective actions to the Indiana Department of Education, we were not aware of the requirement to request a written position from the Indiana Department of Education stating whether corrective active taken was sufficient or if additional verifications need to be performed when high incidences of errors in test sample verifications are noted. Going forward, we will request a written position, if our verification tests result in a high level of errors.

8. <u>Prescribed Forms</u>

Following the prior audit, we did submit the internally generated forms to Stanley Mettle at the State Board of Accounts for approval. The auditor states in the report that the forms were not approved, however, NHA was not notified that any decision had been made by the State Board of Accounts. We will resubmit the forms again for approval.

While the records under audit were prepared utilizing the internally generated forms, it should be noted that accurate financial statements were prepared from these records.

9. <u>Lack of Separate Funds</u>

Separate revenue funds were maintained for all of the sources of revenue on the school's general ledger; however the auditor is correct that the Special Education, Preschool and Textbook rental revenues were not reported separately on the Form 9. Going forward, we will separate these revenues in future Form 9 filings.

10. <u>Sales Tax</u>

The auditor is correct that sales tax was paid on some purchases. Under the Management Agreement between AJB and NHA, NHA has the responsibility to provide all labor materials, equipment, facilities, etc. necessary to operate the school. The Management Agreement further recognizes that NHA is a for-profit Michigan corporation and is an independent contractor. As such, NHA can not legally utilize the school's tax exempt status when purchasing materials to fulfill its responsibilities under the Management Agreement and is obligated to pay sales tax on those purchases.

We appreciate the opportunity to provide responses to the comments in the Audit Results and Comments report. If you have any questions or concerns, please feel free to contact me (616) 954-3520 or email at glambert@heritageacademies.com.

Sincerely,

Greg Lambert
Senior Vice President of Administration and Chief Financial Officer

Cc: Mayor's Office for Indianapolis, Andrew J. Brown Authorizer