STATE OF INDIANA

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

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

August 22, 2013

Charter School Board
Joshua Academy, Inc.
1230 East Illinois Street
Evansville, IN 47711

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

We call your attention to the findings in the report. Page 10 contains one audit finding and management's response.

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

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

State Board of Accounts

JOSHUA ACADEMY, INC.

FINANCIAL STATEMENT
AND
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2012

(With Independent Auditors' Report Thereon)

CONTENTS

Riney Hancock CPAs
PSC

INDEPENDENT AUDITORS' REPORT

Board of Directors
Joshua Academy, Inc.

We have audited the accompanying statement of cash receipts and disbursements of Joshua Academy, Inc. (Academy) (a nonprofit organization) for the year ended June 30, 2012. This financial statement is the responsibility of the Academy's management. Our responsibility is to express an opinion on this financial statement 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 statement of cash receipts and disbursements is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of cash receipts and disbursements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the statement of cash receipts and disbursements. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash receipts and disbursements of Joshua Academy, Inc. for the year ended June 30, 2012, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, on our considerations of the Academy'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statement of cash receipts and disbursements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the statement of cash receipts and disbursements. 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 statement of cash receipts and disbursements. The information has been subjected to the auditing procedures applied in the audit of the statement of cash receipts and disbursements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statement of cash receipts and disbursements or the statement of cash receipts and disbursements itself, 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 statement of cash receipts and disbursements as a whole.

Riney Hancock CPAs PSC

Evansville, Indiana
February 12, 2013

www.rineyhancock.com - info@rineyhancock.com
2900 Veach Road, Suite 2 - Owensboro, Kentucky 42303 - 270-926-4540 - Fax: 270-926-1494
313 Southeast First Street - Evansville, Indiana 47713 - 812-423-0300 - Fax: 812-423-6282
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JOSHUA ACADEMY, INC.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

Year Ended June 30, 2012

Cash receipts:	
State basic grant	$ 1,340,071
Other state support	81,002
Federal grant revenue	201,932
School food services	126,236
Student fees	2,994
Child care fees	49,216
Rental income	250
Contributions	53,517
Textbook rental and sale	4,655
Fundraising income	4,205
Other income	2,790
Collections on note receivable	6,004
Total cash receipts	1,872,872
Cash disbursements:	
Salaries and wages	1,033,164
Payroll taxes	88,923
Employee benefits	192,296
Training and professional development	2,099
Professional fees	176,957
Utilities	96,918
Repairs and maintenance	33,931
Equipment rental	9,028
Supplies	86,460
Student transportation	920
Insurance	27,296
Telephone	7,916
Postage and printing	2,879
Travel	7,459
Advertising	4,784
Food purchases	59,846
Books and periodicals	51,093
Uniforms	1,647
Interest expense	21,283
Other expenses	10,159
Principle payments on long-term debt	86,290
Building and equipment expense	46,540
Computer expense	23,799
Dues and fees	2,515
Bank service charges	911
Total cash disbursements	2,075,113
Decrease in cash	(202,241)
Cash, beginning of year	244,736
Cash, end of year	$ 42,495

See Notes to Financial Statement

JOSHUA ACADEMY, INC.

NOTES TO FINANCIAL STATEMENT

Year Ended June 30, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

Joshua Academy, Inc. (Academy) is a not-for-profit organization incorporated under the laws of the State of Indiana. The Academy is a public charter school sponsored by the Evansville-Vanderburgh School Corporation, which granted a charter to the Academy under Indiana Code 20-24-3-1.

Basis of Accounting

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, the only asset recognized is cash, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements, and noncash transactions are not recognized. The cash receipts and disbursements basis differs from generally accepted accounting principles primarily because the effects of revenue not collected and expenses not paid at the date of the financial statement are not included in the financial statement.

Cash

The Academy maintains its cash balance in a checking account at a local financial institution.

Receipts

Receipts come primarily from resources provided under the Indiana Charter Schools Act. Under the Act, the Academy receives an amount per student in relation to funding received by public schools in the same geographic area. This state basic grant from the State of Indiana is based on enrollment, and is paid in equal monthly installments, which are recognized as revenue when received.

The Academy also records revenue related to cost reimbursement grants, which is also recognized as revenue when received.

2. Income Taxes

The Academy is exempt from income taxes as a nonprofit corporation under Section 501 (c) 3 of the Internal Revenue Code, except on net income derived from unrelated business activities. The Academy believes that it has support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statement.

2. Income Taxes, Continued

The Academy's Forms 990, *Return of Organization Exempt from Income Tax,* for the years ending 2009, 2010, 2011, and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

3. Defined Benefit Retirement Plans

Teachers' Retirement Fund

Plan Description: Certified employees participate in the Indiana Teachers' Retirement Fund (TRF), a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (IPRS). All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the IPRS Board of Trustees, most requirements of the system, and gives the school corporations authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions, plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, plus the interest credited to the member's account. School corporations may elect to make the contributions on behalf of the member.

Funding Policy: Plan members are required to contribute 3% of their annual creditable compensation, set by state statute. The Academy is required to contribute at an actuarially determined rate (7.5% for the year ended June 30, 2012), as established, and which may be amended, by the IPRS Board of Trustees. The Academy did elect to make the annuity contributions on behalf of each member. Contributions to TRF for the year ended June 30, 2012, totaled $73,376, and equaled the required contributions for the year.

Public Employees' Retirement Fund

Plan Description: Non-certified employees participate in the Public Employees' Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (IPRS). All full-time employees are eligible to participate in PERF. State statutes (IC 5-10.2 and 5-10.3) govern, through the IPRS Board of Trustees, most requirements of the system, and give the employer authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions, plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, plus the interest credited to the member's account. Employers may elect to make the contributions on behalf of the member.

3. Defined Benefit Retirement Plans, Continued

Public Employees' Retirement Fund, Continued

Funding Policy: Plan members are required to contribute 3% of their annual creditable compensation, set by state statute. The Academy is required to contribute at an actuarially determined rate (7.75% for the year ended June 30, 2012), as established, and which may be amended, by the IPRS Board of Trustees. The Academy did elect to make the annuity contributions on behalf of each member. Contributions to PERF for the year ended June 30, 2012, totaled $24,962, and equaled the required contributions for the year.

IRPS administers both of these plans, and issues publicly available financial reports for each, which include financial statements and required supplementary information. These reports may be obtained by contacting IPRS, 1 North Capital Street, Suite 001, Indianapolis, IN 46204, or by calling 888-526-1687.

4. Lease

The Academy leases two copiers under cancelable operating leases. The lease agreements provide for minimum future rental payments as of June 30, 2012, as follows:

Year ending June 30:

2013	$	3,297
2014		1,918
2015		411
Total minimum rentals	$	5,626

Rental expense for the leases, including contingent rentals on a per copy basis of $2,527, totaled $5,824 for the year ended June 30, 2012.

5. Functional Expenses

A summary of expenses by functional classification for the year ended June 30, 2012, is as follows:

Instruction	$	957,649
Support services		741,058
Community services		198,010
Facilities acquisition and construction		70,823
Debt service		107,573
	$	2,075,113

6. Concentration

Amounts received under the state basic grant totaled 72% of total cash receipts in fiscal year 2012.

7. Contingencies

The Academy receives funding from Federal and state agencies and from private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantors' review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the Academy for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Academy's grant programs is predicated upon the grantors' satisfaction that the fund provided are being spent as intended and the grantors' intent to continue their programs.

8. Subsequent Events

The Academy has evaluated subsequent events through February 12, 2013, the date the financial statement was available to be issued.

9. Other Reports

In addition to this report, a Supplemental Compliance Examination Report has been issued, which contains the results of testing related to the Academy's compliance with the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts.

10. Cash

Cash is comprised of the following at June 30, 2012:

Restricted	$ 4,645
Unrestricted	37,850
	$ 42,495

JOSHUA ACADEMY, INC.

SUPPLEMENTARY INFORMATION

June 30, 2012

The following supplementary information is required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners.*

Schedule of Receivables

Note receivable, unsecured, dated September 1, 2011, due in monthly installments of $2,079 plus interest through May 1, 2013, bearing interest at 0.32%	$ 18,902
This note was refinanced on September 1, 2012, due in monthly installments of $499 plus interest through August 1, 2015, bearing interest at 0.25%	
Accounts receivable:	
Federal programs	$ 7,534
Lunch fund	23,213
	$ 30,747

Schedule of Capital Assets

Moveable equipment	$ 42,119
Computer hardware	94,433
Other technology equipment	22,210
Kitchen equipment	2,255
Storage building	2,289
School bus	9,530
	$ 172,836

Schedule of Accounts Payable

Lunch fund	$ 31,092
General fund	4,397
	$ 35,489

Schedule of Debt

Common School Loan, unsecured, dated July 1, 2005, due in semi-annual installments of $13,322 plus interest through July 1, 2025, bearing interest at 4%	$ 359,695
Note payable, secured by building, dated June 7, 2011, due in monthly installments of $4,197 including interest through December 1, 2014, bearing interest at 0.35%	125,065
Note payable, unsecured, dated June 30, 2009, due in monthly installments of $3,360 including interest through June 30, 2015, bearing interest at 7.49%	51,162 *
Line of credit, $100,000, unsecured, dated December 6, 2011, maturing on December 6, 2012, with variable interest based on the Wall Street Journal Prime Rate	-
	$ 535,922

* Subsequent to June 30, 2012, the balance of this loan, plus $100,000 borrowed on the line of credit, were refinanced into one note payable in the amount of $135,771, secured by property and equipment, dated December 3, 2012, due in monthly installments of $3,231 including interest through January 3, 2017, bearing interest at 7.49%.

**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***

Board of Directors
Joshua Academy, Inc.

We have audited the financial statement of Joshua Academy, Inc. (Academy) (a nonprofit organization) for the year ended June 30, 2012, and have issued our report thereon dated February 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statement was prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as Finding 2012-1 that we consider to be a significant deficiency in internal

www.rineyhancock.com - info@rineyhancock.com
2900 Veach Road, Suite 2 - Owensboro, Kentucky 42303 - 270-926-4540 - Fax: 270-926-1494
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Internal Control over Financial Reporting, Continued

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Academy in a separate letter dated February 12, 2013.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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

Riney Hancock CPAs PSC

Evansville, Indiana
February 12, 2013

JOSHUA ACADEMY, INC.

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2012

Findings - Financial Statement Audit

Significant Deficiency:

Finding 2012-1:

Segregation of Duties

Due to the limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated. This lack of segregation of duties increases the opportunity for misappropriation of Academy assets and weakens the Academy's ability to detect possible misappropriations. Specifically, monies are generally received by the Director of Finance, who also issues receipts, prepares the daily deposit, records transactions in the general ledger, and reconciles the bank account.

Recommendation

We recommend that the secretary receive and receipt all monies received, and prepare a log of such before forwarding the daily receipts to the Director of Finance for deposit preparation. The Executive Director or a member of the Financial Affairs Committee should periodically compare the listing to the deposit totals.

Management Response

Joshua Academy, Inc. will research and evaluate the best way to segregate the duties in reference to the finding noted above.