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STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
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February 25, 2013

Charter School Board
Hoosier Academy Virtual Charter School
2855 N. Franklin Road
Indianapolis, IN 46219

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2010 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Hoosier Academy Virtual Charter School, 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.

In addition to the report presented herein, a Supplemental Audit Report for Hoosier Academy Virtual Charter School 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

HOOSIER ACADEMY VIRTUAL CHARTER SCHOOL

Financial Statements

June 30, 2012 and 2011

Fitzgerald Isaac LLC
Certified Public Accountants

HOOSIER ACADEMY VIRTUAL CHARTER SCHOOL

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Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hoosier Academy, Inc.

We have audited the accompanying statements of financial position of **Hoosier Academy Virtual Charter School** (an operating component of Hoosier Academy, Inc., a not-for-profit corporation) as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Hoosier Academy, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoosier Academy Virtual Charter School as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Fitzgerald / Isaac LLC

Indianapolis, IN
December 17, 2012

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HOOSIER ACADEMY VIRTUAL CHARTER SCHOOL

Statements of Financial Position

Assets	June 30 2012	June 30 2011
Current assets:		
Cash and cash equivalents	$ 682,630	302,910
Accounts receivable:		
State education support	3,475,097	461,152
Hoosier Academy Indianapolis	781,469	-
Grants	7,604	10,000
K12 Classroom, LLC	30,604	-
Total current assets	4,977,404	774,062
Furniture and equipment	120,233	-
Less: accumulated depreciation	(25,554)	-
Furniture and equipment, net	94,679	-
	$ 5,072,083	774,062

Liabilities and Net Assets	2012	2011
Current liabilities:		
Accounts payable and accrued expenses:		
K12 Classroom, LLC	$ 751,378	624,307
Other	511,185	48,405
Note payable to K12 Classroom, LLC	-	101,350
Current portion of long-term debt	95,238	-
Total current liabilities	1,357,801	774,062
Long-term debt	3,714,282	-
Total liabilities	5,072,083	774,062
Unrestricted net assets	-	-
	$ 5,072,083	774,062

See accompanying notes to financial statements.

HOOSIER ACADEMY VIRTUAL CHARTER SCHOOL

Statements of Activities

	Year Ended June 30	
Revenue, Gains and Support	2012	2011
State education support	$ 6,950,194	922,660
Grant revenue	214,463	22,419
Other income	9,479	-
	7,174,136	945,079
Expenses		
Program services:		
Educational instruction	5,976,679	794,610
Education support	383,711	49,067
Administrative	813,746	101,402
Total expenses	7,174,136	945,079
Change in net assets	-	-
Net assets, beginning of year	-	
Net assets, end of year	$ -	-

See accompanying notes to financial statements.

HOOSIER ACADEMY VIRTUAL CHARTER SCHOOL

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2012	2011
Change in net assets	$ -	-
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	25,554	-
Change in:		
Accounts receivable	(3,823,622)	(191,500)
Accounts payable and accrued expenses	589,851	457,736
Net cash provided (used) by operating activities	(3,208,217)	266,236
Investing Activities		
Purchases of property and equipment	(120,233)	-
Net cash used by investing activities	(120,233)	-
Financing Activities		
Proceeds from Indiana Common School Fund loan	3,809,520	
Repayment of K12 Classroom, LLC loan	(101,350)	-
Net cash provided by financing activities	3,708,170	-
Net increase in cash	379,720	266,236
Cash and cash equivalents, beginning of year	302,910	36,673
Cash and cash equivalents, end of year	$ 682,630	302,910
Supplemental disclosures:		
Cash paid for interest expense	$ -	25

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

General

Hoosier Academy Virtual Charter School (the "School") is a public charter school established under Indiana Code 20-24-3-1 and sponsored by Ball State University. The sponsor granted a charter to the School's organizer, Hoosier Academy, Inc., a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. Hoosier Academy, Inc. is also the organizer and governing body for one other Indiana charter school. The School offers an on-line curriculum, which is open to students throughout the State of Indiana. The School commenced operations as of July 1, 2010. The School has entered into a service agreement with K12 Classroom, LLC to provide administrative and technology services.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Revenues generally come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools for students in the same geographic area. Funding from the State of Indiana is based on enrollment and paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the school year in which educational services are rendered.

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

(1) Summary of Significant Accounting Policies, Continued

Accounts Receivable

Accounts receivable relate primarily to activities funded under grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

Furniture and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful life of the assets is three years.

Taxes on Income

Hoosier Academy, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the organization would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2012 and 2011, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional standards require Hoosier Academy, Inc. to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. Hoosier Academy, Inc. has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2011, 2010, and 2009 are open to audit for both federal and state purposes.

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through December 17, 2012, the date these financial statements were available to be issued. Events and transactions occurring through that date have been evaluated to determine whether recognition or disclosure in the financial statements would be required.

(2) Accounts Receivable

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2012 and 2011:

	2012	2011
Tuition support	$3,083,235	461,152
Special education grant	391,862	-
	$3,475,097	461,152

Tuition support is determined by state law and is dependent upon the geographic location of the students attending the school and is indexed to the poverty data of the enrolled students. The payment schedule is determined by state law with tuition payable in equal monthly installments in the calendar year following the start of school. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 4).

(3) Note Payable

The School has an agreement with its management company, K12 Classroom, LLC, that provides for short-term loans whenever there is a cash shortage. The loans are due within 45 days of receipt and payable with interest at 2% over the prime rate quoted by Bank of America. As of June 30, 2011, the balance of outstanding loans was $101,350. The loan was repaid in 2012, and all interest charges were waived by the lender.

(4) Long-Term Debt

Long-term debt at June 30, 2012 represents a loan from the Indiana Common School Fund. The loan requires semi-annual payments of principal and interest over a period of twenty years, with interest at 4% per annum. Payments are scheduled to commence on January 1, 2013. The note matures July 1, 2032 and is secured by unpaid tuition support distributions (see Note 2).

Principal maturities under the loan agreement is as follows:

Year Ended June 30:	
2013	$ 95,238
2014	190,476
2015	190,476
2016	190,476
2017	190,476
Thereafter	2,952,378
	$3,809,520

(5) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were $184,994 and $0 for the years ended June 30, 2012 and 2011, respectively. The charter remains in effect until June 30, 2013, and is renewable thereafter by mutual consent.

The School has contracted with K12 Classroom, LLC to provide administrative and technology services. Under the terms of the agreement, the School has agreed to pay an amount equal to 22% of revenues, as defined, for such services. Such fees for the years ended June 30, 2012 and 2011 were $1,576,225 and $207,917, respectively. The School also purchases certain other curriculum materials and supplies for which the School is billed as goods and services are received. Such purchases aggregated $5,715,075 and $782,890 for the years ended June 30, 2012 and 2011. This agreement remains in effect until June 30, 2013.

(5) Commitments, Continued

K12 Classroom, LLC has agreed to issue credits against the amounts billed for services and products provided, if needed, to ensure that the School does not end a fiscal year with a financial deficit. For the years ended June 30, 2012 and 2011, service fees were reduced as follows:

	Administrative and Technology Fees	Other Service Fees
Year Ended June 30, 2012:		
Charges per contract	$1,576,225	5,715,075
Credits issued by K12 Classroom, LLC	(1,576,225)	(2,491,037)
Net charges	$ -	3,224,038
Year Ended June 30, 2011:		
Charges per contract	$ 207,917	782,890
Credits issued by K12 Classroom, LLC	(115,309)	(419,576)
Net charges	$ 92,608	363,314

The deficit credits provided by K12 Classroom, LLC are subject to repayment if the School experiences a surplus in subsequent fiscal years. The amount of the repayment is based on a percentage of the surplus experienced during such fiscal year ranging from 25% to 75% dependent upon the amount of the surplus. Any unpaid credits remaining upon termination of the agreement are not subject to repayment. The School is not able to estimate the amount of the repayment, if any, expected to be made in future years.

(6) Retirement Plans

Retirement benefits for School employees are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a multiple-employer defined benefit retirement plan created by the State of Indiana, and a 403(b) plan offered through the Indiana Public Charter School Association. Under each of the plans, the School contributes 7% of compensation for all participating personnel. Substantially all full-time employees are eligible to participate. Retirement plan expense was $146,887 and $21,536 for the years ended June 30, 2012 and 2011, respectively.

(7) Risks and Uncertainties

The School provides educational instruction services to students throughout the State of Indiana through its virtual curriculum, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations could result in additional liability to be imposed.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2012, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at PNC Bank frequently exceed the FDIC insurance limit.

(8) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the years ended June 30, 2012 and 2011:

	2012		
	Educational Instruction	Education Support	Administrative
Salaries and wages	$1,968,887	267,504	204,577
Employee benefits	530,293	64,164	38,219
Staff development and recruitment	5,609	-	-
Professional services	291,051	1,335	146,316
Authorizer oversight fee	-	-	184,994
Property rental and technology support	433,313	-	-
Classroom and office supplies	2,714,052	3,020	41,049
Occupancy	7,920	-	-
Depreciation	25,554	-	-
Interest	-	-	88,889
Other	-	47,688	109,702
	$5,976,679	383,711	813,746

(8) Functional Expense Reporting, Continued

	2011		
	Educational Instruction	Education Support	Administrative
Salaries and wages	$328,387	-	-
Employee benefits	83,781	-	-
Professional services	23,860	30,442	8,949
Authorizer oversight fee	-	-	-
Administrative fee	-	-	62,167
Property rental and technology support	33,948	-	-
Classroom and office supplies	324,534	-	3,195
Occupancy	100	-	-
Interest	-	-	25
Other	-	18,625	27,066
	$794,610	49,067	101,402

<u>HOOSIER ACADEMY VIRTUAL CHARTER SCHOOL</u>

Other Reports

Year Ended June 30, 2012

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

Supplemental Audit Report of Hoosier Academy Virtual Charter School

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools.*