



STATE OF INDIANA
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February 25, 2013

Charter School Board
Hoosier Academy Muncie, Inc.
2801 East 16th Street
Muncie, IN 47302

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 Muncie, Inc., as of June 30, 2011 and 2012, and the results of its operations for the periods 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 Muncie, 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

HOOSIER ACADEMY MUNCIE, INC.

Financial Statements

June 30, 2012 and 2011

HOOSIER ACADEMY MUNCIE, INC.

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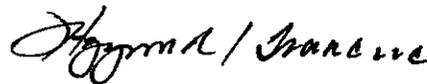
INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hoosier Academy Muncie, Inc.

We have audited the accompanying statements of financial position of **Hoosier Academy Muncie, Inc.** 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 Muncie, 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 Muncie, Inc. 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.



Indianapolis, IN
December 17, 2012

HOOSIER ACADEMY MUNCIE, INC.

Statements of Financial Position

Assets	June 30	
	2012	2011
Current assets:		
Cash	\$ 123,028	64,422
Accounts receivable:		
State education support	337,217	352,754
Grants	2,431	36,431
Prepaid expenses	1,598	3,630
Total current assets	<u>464,274</u>	<u>457,237</u>
Property and equipment:		
Leasehold improvements	69,913	51,730
Furniture and equipment	513,694	504,476
	<u>583,607</u>	<u>556,206</u>
Less accumulated depreciation	(357,252)	(241,789)
Property and equipment, net	<u>226,355</u>	<u>314,417</u>
	<u>\$ 690,629</u>	<u>771,654</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses:		
K12 Classroom, LLC	-	51,077
Other	51,425	62,740
Note payable to K12 Classroom, LLC	330,470	360,000
Total current liabilities	<u>381,895</u>	<u>473,817</u>
Accrued interest on Common School Fund loan	36,322	25,425
Long-term debt	272,412	272,412
Total liabilities	<u>690,629</u>	<u>771,654</u>
Unrestricted net assets	<u>-</u>	<u>-</u>
	<u>\$ 690,629</u>	<u>771,654</u>

See accompanying notes to financial statements.

HOOSIER ACADEMY MUNCIE, INC.

Statements of Activities

	<u>Year Ended June 30</u>	
	<u>2012</u>	<u>2011</u>
<u>Revenue, Gains and Support</u>		
State education support	\$ 674,936	706,064
Grant revenue	103,430	236,449
K12 Classroom, LLC	320,597	60,148
Other income	4,640	3,480
Total revenue, gains and support	<u>1,103,603</u>	<u>1,006,141</u>
 <u>Expenses</u>		
Program services:		
Educational instruction	688,968	694,197
Education support	158,384	124,882
Administrative	256,251	199,689
Total expenses	<u>1,103,603</u>	<u>1,018,768</u>
 Change in net assets	-	(12,627)
 Net assets, beginning of year	<u>-</u>	<u>12,627</u>
 Net assets, end of year	<u>\$ -</u>	<u>-</u>

See accompanying notes to financial statements.

HOOSIER ACADEMY MUNCIE, INC.

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
<u>Operating Activities</u>		
Change in net assets	\$ -	(12,627)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	115,463	124,291
Forgiveness of loan obligation	(269,530)	-
Change in:		
Accounts receivable	49,537	(31,385)
Prepaid expenses	2,032	(1,830)
Accounts payable and accrued expenses	(51,495)	(154,140)
Refundable advances	-	(144,103)
Deferred rent	-	(1,865)
Net cash used by operating activities	<u>(153,993)</u>	<u>(221,659)</u>
 <u>Investing Activities</u>		
Purchases of property and equipment	<u>(27,401)</u>	<u>(135,713)</u>
Net cash used by investing activities	<u>(27,401)</u>	<u>(135,713)</u>
 <u>Financing Activities</u>		
Proceeds from K12 Classroom, LLC loan	<u>240,000</u>	<u>60,000</u>
Net cash provided by financing activities	<u>240,000</u>	<u>60,000</u>
 Net increase (decrease) in cash	58,606	(297,372)
 Cash, beginning of year	<u>64,422</u>	<u>361,794</u>
 Cash, end of year	<u>\$ 123,028</u>	<u>64,422</u>

See accompanying notes to financial statements.

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

General

Hoosier Academy Muncie, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24-3-1 and sponsored by Ball State University. The School commenced operations as of July 1, 2008. 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 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.

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.

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

Hoosier Academy Muncie, 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 School is 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 the School 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. The School 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.

Property 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 lives generally are as follows:

Leasehold improvements	40 years
Furniture and equipment	3 to 7 years

Subsequent Events

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

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(2) Accounts Receivable

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

	<u>2012</u>	<u>2011</u>
Tuition support	\$265,253	312,170
Special education grant	71,964	28,447
Prime Time grant.....	<u> -</u>	<u>12,137</u>
	<u>\$337,217</u>	<u>352,754</u>

Tuition support is determined by state law and is dependent upon the geographic location of 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 the school year. 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 5).

(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, 2012 and 2011, the balance of outstanding loans was \$330,470 and \$360,000, respectively. Due to cash shortages, the School has been unable to make payments. K12 Classroom, LLC has not made an attempt to obtain payment and the School has continued to reflect the balance of the note as currently payable in the accompanying statements of financial position.

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(4) Leases

The School leases its facilities and one item of equipment under operating leases. Total expense under these operating leases for the years ended June 30, 2012 and 2011 was \$80,202 and \$58,191, respectively. Minimum future rental payments as of June 30, 2012 for all operating leases with initial, noncancellable lease terms in excess of one year are as follows:

<u>Year ending December 31:</u>	
2013	\$85,145
2014	3,876
2015	3,876
2016	323

(5) Long-Term Debt

Long-term debt at June 30, 2012 and 2011 represents a loan from the Indiana Common School Fund. The loan requires semi-annual payments of principal and interest over a period of nine years, with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second two-year moratorium on loan payments. Payments are scheduled to commence on July 1, 2013. The note matures on January 1, 2022 and is secured by unpaid tuition support distributions (see Note 2).

Principal maturities under the loan agreement are as follows:

<u>Year Ended June 30:</u>	
2013	\$ -
2014	30,268
2015	30,268
2016	30,268
2017	30,268
Thereafter	<u>151,340</u>
	<u>\$272,412</u>

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(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 \$35,104 and \$27,793 for the years ended June 30, 2012 and 2011, respectively.

(7) 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 \$13,373 and \$18,747 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 \$171,241 and \$208,118, respectively. The School also purchases certain curriculum supplies and materials for which the School is billed as goods and services are received. Such purchases aggregated \$695,685 and \$412,888 for the years ended June 30, 2012 and 2011. This agreement remains in effect until June 30, 2013.

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(7) 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:

	<u>Administrative and Technology Fees</u>	<u>Other Service Fees</u>
Year Ended June 30, 2012:		
Charges per contract	\$171,241	695,685
Credits issued by K12 Classroom, LLC	<u>(171,241)</u>	<u>(695,685)</u>
Net charges	<u>\$ -</u>	<u>-</u>
Year Ended June 30, 2011:		
Charges per contract	\$208,118	412,888
Credits issued by K12 Classroom, LLC	<u>(208,118)</u>	<u>(412,888)</u>
Net charges	<u>\$ -</u>	<u>-</u>

The School's operating deficit for the years ended June 30, 2012 and 2011 exceeded charges from K12 Classroom, LLC by \$320,597 and \$60,148, respectively. As a result, K12 Classroom, LLC agreed to make a contribution of this amount in order to eliminate the deficit. A portion of that contribution in 2012 (\$269,530) was provided by reducing the loan balance due to K12 Classroom, LLC.

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.

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(8) Risks and Uncertainties

The School provides educational instruction services to families residing in Delaware and surrounding counties in Indiana, 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 First Merchants Bank occasionally exceed the FDIC insurance limit.

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(9) 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:

	<u>2012</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$296,138	54,746	106,323
Employee benefits.....	104,856	9,525	26,308
Professional services.....	63,999	57,153	63,111
Staff development and recruitment.....	-	328	-
Authorizer oversight fee.....	-	-	13,373
Food costs.....	-	14,709	-
Property rental and technology support.....	94,883	-	-
Classroom and office supplies.....	3,639	6,656	6,587
Occupancy.....	9,991	-	-
Depreciation.....	115,462	-	-
Interest.....	-	-	10,896
Other.....	-	<u>15,267</u>	<u>29,653</u>
	<u>\$688,968</u>	<u>158,384</u>	<u>256,251</u>

HOOSIER ACADEMY MUNCIE, INC.

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	<u>2011</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$339,619	57,189	57,951
Employee benefits	85,775	6,742	16,916
Professional services	31,305	7,089	52,384
Staff development and recruitment.....	-	11,841	-
Authorizer oversight fee.....	-		18,747
Food costs.....	-	12,313	-
Property rental and technology support	84,605	-	-
Classroom and office supplies.....	15,438	11,806	7,475
Occupancy.....	13,164	-	-
Depreciation	124,291	-	-
Interest	-	-	10,897
Other	-	<u>17,902</u>	<u>35,319</u>
	<u>\$694,197</u>	<u>124,882</u>	<u>199,689</u>

HOOSIER ACADEMY MUNCIE, INC.

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 Muncie, Inc.

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*.