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STATE OF INDIANA

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February 5, 2016

Charter School Board
Hoosier Academy Indianapolis
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, 2013 to June 30, 2014. 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, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements included in the report present fairly the financial condition of the Hoosier Academy Indianapolis, as of June 30, 2014, 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 Indianapolis 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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

HOOSIER ACADEMY INDIANAPOLIS

Financial Statements

June 30, 2014 and 2013

Fitzgerald Isaac LLC
Certified Public Accountants

HOOSIER ACADEMY INDIANAPOLIS

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Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hoosier Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Hoosier Academy Indianapolis** (an operating component of Hoosier Academy, Inc., a not-for-profit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As presented in Note 2 to the financial statements, the Indiana Legislature passed amendments to the Indiana Charter Schools Act that resulted in the suspension of funding in the amount of $163,940. The School believes that these funds were earned under state law, that there was no legislative intent to retroactively defund the School as it transitioned to a new funding method for school year 2014, and that these funds cannot be withheld in the absence of other compensatory reimbursements. Accordingly, the School is appealing this result with the state government for the unremitted funding shortfall with the expectation that it will ultimately be successful in restoring the unremitted income, and has reflected this income as a receivable on its statements of financial position as of June 30, 2014 and 2013. Accounting principles generally accepted in the United States of America require that a potential gain that is contingent upon a future event be recognized when the amount is realized. If the School were to recognize this gain contingency when realized, a write down of receivables in the amount of $163,940 would be required as of June 30, 2014 and 2013. Accordingly, unrestricted net assets as of June 30, 2014 and 2013 and the change in net assets for the year ended June 30, 2013 would be reduced by this amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Hoosier Academy Indianapolis as of June 30, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fitzgerald Isaac LLC

Indianapolis, IN
November 25, 2015

HOOSIER ACADEMY INDIANAPOLIS

Statements of Financial Position

Assets	June 30 2014	June 30 2013
Current assets:		
Cash and cash equivalents	$ 937,263	885,439
Accounts receivable:		
State education support	163,940	163,940
Grants	129,204	57,531
K12 Classroom, LLC	4,362	4,000
Other	-	2,399
Prepaid expenses	44,522	45,675
Total current assets	1,279,291	1,158,984
Property and equipment:		
Leasehold improvements	777,312	777,312
Furniture and equipment	836,788	814,274
Less: accumulated depreciation	(1,051,043)	(885,121)
Property and equipment, net	563,057	706,465
	$ 1,842,348	1,865,449

Liabilities and Net Assets	2014	2013
Current liabilities:		
Accounts payable and accrued expenses:		
K12 Classroom, LLC	$ 1,601,840	1,660,432
Other	237,508	201,084
Refundable advances	3,000	3,000
Deferred rent	-	933
Total current liabilities	1,842,348	1,865,449
Unrestricted net assets	-	-
	$ 1,842,348	1,865,449

See accompanying notes to financial statements.

HOOSIER ACADEMY INDIANAPOLIS

Statements of Activities

	Year Ended June 30	
Revenue and Support	2014	2013
State education support	$ 2,596,499	3,150,615
Grant revenue	129,739	182,228
Contributions	22,513	-
Student fees	4,071	2,272
Interest income	3,034	3,052
Other income	2,843	11,451
Total revenue and support	2,758,699	3,349,618
Expenses		
Program services	2,241,281	2,936,613
Management and general	517,418	413,005
Total expenses	2,758,699	3,349,618
Change in net assets	-	-
Net assets, beginning of year	-	-
Net assets, end of year	$ -	-

See accompanying notes to financial statements.

HOOSIER ACADEMY INDIANAPOLIS

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	**2014**	**2013**
Change in net assets	$ -	-
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Donated equipment	(22,514)	-
Depreciation	165,922	218,048
Change in:		
Accounts receivable	(69,636)	313,401
Prepaid expenses	1,153	(17,790)
Accounts payable and accrued expenses	(22,168)	665,836
Deferred rent	(933)	(5,134)
Refundable advances	-	3,000
Net cash provided by operating activities	51,824	1,177,361
Investing Activities		
Purchases of property and equipment	-	(2,840)
Net cash used by investing activities	-	(2,840)
Financing Activities		
Repayments of K12 Classroom, LLC loan	-	(766,995)
Net cash used by financing activities	-	(766,995)
Net increase in cash	51,824	407,526
Cash and cash equivalents, beginning of year	885,439	477,913
Cash and cash equivalents, end of year	$ 937,263	885,439

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

General

Hoosier Academy Indianapolis (the "School") is a public charter school established under Indiana Code 20-24 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 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 other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the 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 federal 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. See Note 2 for additional information.

(1) Summary of Significant Accounting Policies, Continued

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.

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.........................	12 to 15 years
Furniture and equipment	2 to 5 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, 2014 and 2013, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting 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 after 2011 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 November 25, 2015, 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.

Reclassifications

Certain figures for 2013 that were previously reported have been reclassified for comparative purposes.

(2) Accounts Receivable

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2014 and 2013:

Tuition support	$1,409,327
Special education grant	153,827
Prime time grant	10,804
Honors grant	1,350
	1,575,308
Less: reduction for loan forgiveness	(1,411,368)
	$ 163,940

The School's accounts receivable balance for education support consists of amounts due from the State of Indiana for tuition support relating to (a) the first six months of the School's initial school year and (b) enrollment growth occurring in subsequent school years.

Pursuant to IC §20-49-7, the State Board of Education was authorized to advance funds to charter schools via the State's Common School Fund thereby allowing charter schools to finance operations for periods when adequate tuition support was not received. These cash advances were made to charter schools through executed loan agreements with repayment terms that are defined in the statute.

(2) Accounts Receivable, Continued

In April 2013, the Indiana General Assembly repealed IC §20-49-7 with the passing of House Bill 1001 and established an appropriation to forgive charter schools for cash advances previously made through the Common School Fund. The School applied for and was forgiven from repaying the balance of its indebtedness plus accrued interest of $1,411,368 as of June 30, 2013. The receivable for education support has been reduced by the amount of the loan forgiven.

Members of the Indiana General Assembly and the executive branch have been informed that a number of charter schools remain with an accounts receivable balance and those charter schools believe that the State remains obligated for amounts not reimbursed through the provisions of House Bill 1001. Legislative and administrative efforts are being made to resolve any outstanding obligations of the State.

(3) Leases

The School leases the school facility under an operating lease with Patriots Place, LLC, and another building for administrative purposes from Franklin Road Realty, LLC. The leases provide for monthly lease payments through August 2016 and June 2017, respectively. The School also leases certain items of office equipment under an operating lease, which provides for monthly payments through August 2017. Rent expense for the years ended June 30, 2014 and 2013 under these operating leases was $446,682 and $452,960, respectively.

Future minimum lease obligations under operating leases with initial terms in excess of one year are as follows:

Year Ended June 30:	
2015	$411,465
2016	400,195
2017	255,608

(4) 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 received. Payments under this charter agreement were $60,953 and $42,280 for the years ended June 30, 2014 and 2013, respectively. The charter remains in effect until June 30, 2016, 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, 2014 and 2013 were $599,112 and $721,763, 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 $1,284,599 and $1,599,529 for the years ended June 30, 2014 and 2013. This agreement remains in effect until June 30, 2016.

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, 2014 and 2013, service fees were reduced as follows:

	Administrative and Technology Fees	Other Service Fees
Year Ended June 30, 2014:		
Charges per contract	$ 599,112	1,284,599
Credits issued by K12 Classroom, LLC.	(599,112)	(821,105)
Net charges	$ -	463,494
Year Ended June 30, 2013:		
Charges per contract	$721,763	1,599,500
Credits issued by K12 Classroom, LLC.	(721,763)	(825,964)
Net charges	$ -	773,536

(4) Commitments, Continued

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.

(5) Retirement Plans

Retirement benefits for School employees are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Under the plan, the School contributes 7% of compensation for all participating personnel. In lieu of TRF, employees can opt to participate in a 403(b) plan offered through the Indiana Public Charter School Association. The School also contributes 7% of compensation to the 403(b) plan. Substantially, all full-time employees are eligible to participate in either plan. Retirement plan expense was $47,359 and $70,831 for the years ended June 30, 2014 and 2013, respectively.

(6) Risks and Uncertainties

The School provides educational instruction services to families residing in Marion 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, 2014, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits are maintained at PNC Bank and are insured up to the FDIC insurance limit.

(7) 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 between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

	2014	
	Program Services	Management and General
Salaries and wages	$ 716,823	193,402
Employee benefits	177,190	42,817
Staff development	3,532	-
Professional services	102,634	131,939
Authorizer oversight fee	-	60,953
Food costs	25,208	-
Equipment rental and maintenance	246,455	-
Classroom and office supplies	323,982	42,203
Occupancy	424,009	-
Depreciation	165,922	-
Other	55,526	46,104
	$2,241,281	517,418

(7) Functional Expense Reporting, Continued

	2013	
	Program Services	Management and General
Salaries and wages	$ 991,293	155,240
Employee benefits	276,736	36,918
Staff development	25,270	-
Professional services	114,467	106,434
Authorizer oversight fee	-	42,280
Food costs	22,356	-
Equipment rental and maintenance	546,043	-
Classroom and office supplies	486,494	15,674
Occupancy	206,356	-
Depreciation	218,048	-
Interest	-	22,806
Other	49,550	33,653
	$2,936,613	413,005

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Other Reports

Year Ended June 30, 2014

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 Indianapolis

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*.