

INCYBER

The Indiana Cyber Charter School

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013



INDIANA CYBER CHARTER SCHOOL, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
INDIANA CYBER CHARTER SCHOOL
Indianapolis, Indiana

We have audited the accompanying financial statements of INDIANA CYBER CHARTER SCHOOL, INC., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended.

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; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. 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 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INDIANA CYBER CHARTER SCHOOL, INC. as of June 30, 2014 and 2013, and the changes in net assets, functional expenses, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Report

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other report listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements in accordance with accounting principles generally accepted in the United States.

Alending CPA Group

November 24, 2014

INDIANA CYBER CHARTER SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2014 AND 2013

	<u>ASSETS</u>	
	<u>2014</u>	<u>2013</u>
Assets:		
Cash	\$ 5,006	\$ 53,533
Grant receivable	-0-	64,574
Prepaid expenses	<u>89,573</u>	<u>175,541</u>
Total current assets	94,579	293,648
Equipment, net	<u>117,738</u>	<u>-0-</u>
Total assets	<u>\$ 212,317</u>	<u>\$ 293,648</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Liabilities:		
Current maturities of long-term debt	\$ 396,022	\$ 164,241
Accounts payable	<u>266,685</u>	<u>93,959</u>
Total current liabilities	662,707	258,200
Long-Term Debt	<u>564,879</u>	<u>237,841</u>
Total liabilities	1,227,586	496,041
Net Assets - Unrestricted	<u>(1,015,269)</u>	<u>(202,393)</u>
Total liabilities and net assets	<u>\$ 212,317</u>	<u>\$ 293,648</u>

See accompanying Notes to Financial Statements.

INDIANA CYBER CHARTER SCHOOL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Revenues and Support:		
Public revenue and support		
State funding	\$ 1,299,017	\$ 202,692
Contributions and grants	<u>326,489</u>	<u>93,022</u>
Total public revenue and support	1,625,506	295,714
Forgiveness of debt	-0-	163,594
Other income (expense), net	<u>2,993</u>	<u>488</u>
Total revenue and support	<u>1,628,499</u>	<u>459,796</u>
Expenses:		
Program services	1,503,342	504,128
Management and general	471,096	104,898
Fundraising	<u>466,937</u>	<u>53,163</u>
Total operating expenses	<u>2,441,375</u>	<u>662,189</u>
Change in net assets	(812,876)	(202,393)
Net Assets, Beginning of Year	<u>(202,393)</u>	<u>-0-</u>
Net Assets, End of Year	<u>\$ (1,015,269)</u>	<u>\$ (202,393)</u>

See accompanying Notes to Financial Statements.

INDIANA CYBER CHARTER SCHOOL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	<u>Program Services</u>		Management and	<u>Fundraising</u>	<u>Total</u>	2013
	<u>Grants</u>	<u>Academics</u>	<u>General</u>			<u>Total</u>
Labor and Benefits:						
Salaries	\$ -0-	\$ 335,041	\$ 46,750	\$ 7,791	\$ 389,582	\$ 134,900
Employee benefits	-0-	144,963	20,227	3,372	168,562	27,195
Total labor and benefits	-0-	480,004	66,977	11,163	558,144	162,095
Other Expenses:						
Course materials/supplies	14,650	263,054	49,007	-0-	326,711	111,290
Professional services	85,089	236,621	321,710	-0-	643,420	124,085
Instructional services	-0-	6,232	-0-	-0-	6,232	56,246
Community relations	25,150	-0-	-0-	430,108	455,258	64,182
Instructional staff training	24,689	37,862	-0-	-0-	62,551	32,654
Travel and entertainment	-0-	28,587	-0-	12,252	40,839	31,872
Rent	-0-	29,089	4,059	676	33,824	24,000
Computers and equipment	19,198	20,525	3,090	1,324	44,137	15,388
Insurance	-0-	16,429	1,825	-0-	18,254	13,467
Information technology	5,000	110,318	-0-	-0-	115,318	11,869
Depreciation	-0-	26,613	7,604	3,802	38,019	-0-
Interest	-0-	50,493	14,427	7,213	72,133	-0-
Office expenses	-0-	624	87	14	725	6,726
Food services	-0-	6,553	-0-	-0-	6,553	3,310
Utilities	-0-	14,602	2,037	340	16,979	2,660
Miscellaneous	-0-	624	87	14	725	40
Dues and fees	-0-	1,336	186	31	1,553	2,305
Total expenses	<u>\$ 173,776</u>	<u>\$ 1,329,566</u>	<u>\$ 471,096</u>	<u>\$ 466,937</u>	<u>\$ 2,441,375</u>	<u>\$ 662,189</u>

See accompanying Notes to Financial Statements.

INDIANA CYBER CHARTER SCHOOL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>		Management and	<u>Fundraising</u>	<u>Total</u>
	<u>Grants</u>	<u>Academics</u>	<u>General</u>		
Labor and Benefits:					
Salaries	\$ -0-	\$ 116,014	\$ 16,188	\$ 2,698	\$ 134,900
Payroll taxes and benefits	<u>-0-</u>	<u>23,388</u>	<u>3,263</u>	<u>544</u>	<u>27,195</u>
Total labor and benefits	-0-	139,402	19,451	3,242	162,095
Other Expenses:					
Course materials/supplies	3,120	91,477	16,693	-0-	111,290
Professional services	30,961	31,082	62,042	-0-	124,085
Instructional services	-0-	56,246	-0-	-0-	56,246
Community relations	25,000	-0-	-0-	39,182	64,182
Instructional staff training	23,175	9,479	-0-	-0-	32,654
Travel and entertainment	-0-	22,310	-0-	9,562	31,872
Rent	-0-	20,640	2,880	480	24,000
Computers and equipment	7,641	6,208	1,077	462	15,388
Insurance	-0-	12,120	1,347	-0-	13,467
Information technology	3,125	8,744	-0-	-0-	11,869
Office expenses	-0-	5,784	807	135	6,726
Food services	-0-	3,310	-0-	-0-	3,310
Utilities	-0-	2,288	319	53	2,660
Miscellaneous	-0-	34	5	1	40
Dues and fees	<u>-0-</u>	<u>1,982</u>	<u>277</u>	<u>46</u>	<u>2,305</u>
Total expenses	<u>\$ 93,022</u>	<u>\$ 411,106</u>	<u>\$ 104,898</u>	<u>\$ 53,163</u>	<u>\$ 662,189</u>

See accompanying Notes to Financial Statements.

INDIANA CYBER CHARTER SCHOOL, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (812,876)	\$ (202,393)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	38,019	-0-
Forgiveness of debt	-0-	(163,594)
Changes in operating assets and liabilities:		
Grant receivable	64,574	(64,574)
Prepaid expenses	85,968	(175,541)
Accounts payable	<u>395,716</u>	<u>93,959</u>
Net cash used in operating activities	<u>(228,599)</u>	<u>(512,143)</u>
Cash Flows From Investing Activities:		
Capital expenditures	<u>(155,757)</u>	<u>-0-</u>
Cash Flows from Financing Activities:		
Borrowings under long-term debt	521,880	565,676
Payments under long-term debt	<u>(186,051)</u>	<u>-0-</u>
Net cash provided by financing activities	<u>335,829</u>	<u>565,676</u>
Net increase (decrease)	(48,527)	53,533
Cash, Beginning of Year	<u>53,533</u>	<u>-0-</u>
Cash, End of Year	<u>\$ 5,006</u>	<u>\$ 53,533</u>
Non-Cash Financing Activities:		
Reduction of accounts payable through note payable to former vendor	<u>\$ 222,990</u>	<u>\$ -0-</u>

See accompanying Notes to Financial Statements.

INDIANA CYBER CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Indiana Cyber Charter School, Inc. ("IN Cyber"), formed in April 2012 with operations beginning in February 2013, is a public charter school headquartered in Avon, Indiana with academic facilities throughout the state. IN Cyber offers students and families a chance to customize their education using advanced technology, highly qualified teachers and intensely personalized instruction with a dynamic, interactive curriculum that satisfies, challenges, and engages thousands of students across the state.

The significant accounting policies followed by IN Cyber in the preparation of its financial statements are summarized below:

Basis of Presentation

Net assets, support, revenue and expenses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are net assets not subject to donor-imposed restrictions and are, therefore, available to support the general operations of IN Cyber. All net assets of IN Cyber and the changes therein are classified and reported herein as unrestricted net assets.

Revenue Recognition and Contributions

Revenues and support are reported as increases in unrestricted or temporarily restricted net assets based upon donor-imposed restrictions, if any. IN Cyber records donor-restricted contributions whose restrictions are satisfied in the same reporting period as unrestricted support and revenue.

Functional Expenses

Expenses are functionally classified as Program Services, Management and General, and Fundraising. Classifications are based on cost allocations determined by IN Cyber's personnel.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates. Significant estimates employed in preparation of IN Cyber's financial statements include depreciation methods, useful lives of equipment and the allocation of functional expenses.

INDIANA CYBER CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Equipment and Depreciation

Purchased property and equipment are recorded at cost. Items donated are recorded at fair market value on the date of donation. Costs of improvements are capitalized and costs of repairs and maintenance are expensed as incurred. Depreciation is recorded over the estimated useful lives of the assets at three years utilizing the straight-line method.

Depreciation expense was \$38,019 for the year ended June 30, 2014.

Income Taxes

IN Cyber is exempt from Federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state law. Accordingly, no provision has been recorded for Federal or state income taxes.

Management of IN Cyber evaluates all significant tax positions to ensure compliance with exempt purpose of the Organization as required by U.S. GAAP, including consideration of any unrelated business income tax. As of June 30, 2014, Management does not believe IN Cyber has taken any tax positions that are not in compliance with the exempt purpose of IN Cyber. IN Cyber's Federal and state tax returns remain open and subject to examination beginning with the tax year ended June 30, 2013.

Subsequent Events

Subsequent events have been evaluated through November 24, 2014 which is the date the financial statements were available for issuance (Note 6).

2. GRANT RECEIVABLE

IN Cyber recognizes all material conditional or unconditional promises to give as grant revenue. Promises to give that are expected to be collected in future years are recorded at their net present value.

The grant receivable of \$64,574 at June 30, 2013 was due from one grantor and has been collected by IN Cyber. This grant was funded on a cost reimbursement basis.

INDIANA CYBER CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

3. LONG-TERM DEBT

Long-term debt at June 30, 2014 and 2013 includes the following:

	<u>2014</u>	<u>2013</u>
Unsecured note payable to former vendor; 0%, payable in monthly installments of \$49,503 commencing November 2014 through October 2015.	\$ 594,033	\$ 402,082
Unsecured note payable to vendor; 12%, interest only payments through November 2015 at which point the principal is due.	38,277	-0-
Unsecured note payable to vendor; 12%, interest only payments through November 2015 at which point the principal is due.	<u>328,591</u>	<u>-0-</u>
	960,901	402,082
Less current maturities	<u>396,022</u>	<u>164,241</u>
	<u>\$ 564,879</u>	<u>\$ 237,841</u>

Annual maturities of long-term debt at June 30, 2014 are as follows:

Year Ending <u>June 30,</u>	
2015	\$ 396,022
2016	<u>564,879</u>
	<u>\$ 960,901</u>

4. OPERATING LEASE

Prior to 2014, IN Cyber leased its administrative office and four (4) academic facilities throughout Indiana under the terms of month-to-month leases requiring monthly payments aggregating \$3,600. During 2014, the Organization terminated three (3) of the academic facility leases and as of June 30, 2014, leases its remaining facilities at a monthly rate of \$1,350. Total operating lease expense was \$33,824 and \$24,000, for the years ended June 30, 2014 and 2013, respectively.

INDIANA CYBER CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

5. CONCENTRATION OF CREDIT RISK

Cash

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

Grant Receivable and Support and Revenue

At June 30, 2014 and 2013 and for the years then ended, 100% of IN Cyber's public support and revenue were from one (1) grantor.

6. SUBSEQUENT EVENTS

Purchase of Land and Buildings

In August 2014, IN Cyber entered into a Purchase Agreement to purchase land and buildings in Sullivan County, Indiana for \$1 and perform repairs as outlined in the Purchase Agreement. The closing is expected to be no later than January 2015.

Settlement

In September 2014, the Organization entered into a settlement agreement with a former vendor regarding non-payment on a promissory note and invoices for curriculum services. The agreement specifies a settlement requiring IN Cyber to pay \$594,033 in monthly installment of \$49,503 over twelve (12) months commencing in November 2014. The affects of this settlement have been recognized retroactively as of June 30, 2014 (Note 3).

INDIANA CYBER CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

7. FINANCIAL CONDITION

During the year ended June 30, 2014, IN Cyber has an additional decrease in net assets of \$1,015,269. In order to address this issue, Management and the Board of Directors have developed a number of strategies to return the Organization to profitability and to a positive cash flow position, as follows:

- IN Cyber had a significant increase in the number of students enrolled for the 2014 – 2015 school year. 1,168 students were enrolled in August 2014 as compared to 242 students in the prior year.
- As a result of the increase in enrolled students, the Organization anticipates a 350% increase in state funding for the 2014 – 2015 school year.
- With the large increase in state funding, the Organization anticipates paying off all outstanding debt obligations with current and former vendors (Note 3) prior to the end of fiscal year 2015. Additionally, IN Cyber expects overall expenditures to normalize in the current year due to the Organization having substantial start-up cost in prior year.
- As discussed in Note 6, the Organization entered into a Purchase Agreement to purchase land and buildings in Sullivan County, Indiana. This will give the Organization a physical presence in the State of Indiana as well as collateral in which the Organization may obtain financing against in the future.

As a result of these and other operating and fundraising actions, Management and the Board of Directors believe the Organization will have positive cash flow in fiscal 2015 and beyond.

OTHER REPORT

INDIANA CYBER CHARTER SCHOOL, INC.

OTHER REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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

Supplemental Audit Report of the Indiana Cyber Charter School, Inc.