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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

February 25, 2013

Charter School Board
Hoosier Academy Indianapolis
5640 Caito Drive
Indianapolis, IN 46226

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 Indianapolis, 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.

We call your attention to the findings in the report. Pages 23 through 26 contain two audit findings. Page 27 contains the status of one prior audit finding. Attachment A contains management's response.

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.

State Board of Accounts

HOOSIER ACADEMY INDIANAPOLIS

Financial Statements and Federal Single Audit Report

June 30, 2012 and 2011

Fitzgerald Isaac LLC
Certified Public Accountants

HOOSIER ACADEMY INDIANAPOLIS

Table of Contents

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 Indianapolis** (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 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 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 Indianapolis 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012 on our consideration of Hoosier Academy Indianapolis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 audits.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Indianapolis, IN
December 17, 2012

HOOSIER ACADEMY INDIANAPOLIS

Statements of Financial Position

Assets	June 30 2012	June 30 2011
Current assets:		
Cash and cash equivalents	$ 477,913	379,481
Accounts receivable:		
State education support	1,842,570	1,505,170
Grants	19,008	42,990
K12 Classroom, LLC	67,257	47,182
Other	23,803	3,251
Note receivable	-	66,709
Prepaid expenses	27,885	29,499
Total current assets	2,458,437	2,074,282
Property and equipment:		
Leasehold improvements	777,312	640,983
Furniture and equipment	811,434	738,405
	1,588,746	1,379,388
Less accumulated depreciation	(667,073)	(421,087)
Property and equipment, net	921,673	958,301
	$ 3,380,110	3,032,583

Liabilities and Net Assets	2012	2011
Current liabilities:		
Accounts payable and accrued expenses:		
K12 Classroom, LLC	$ 948,934	270,093
Other	269,552	247,998
Note payable to K12 Classroom, LLC	766,995	1,166,995
Total current liabilities	1,985,481	1,685,086
Accrued interest on Common School Fund loans	151,934	102,469
Deferred rent	6,067	8,400
Long-term debt	1,236,628	1,236,628
Total liabilities	3,380,110	3,032,583
Unrestricted net assets	-	-
	$ 3,380,110	3,032,583

See accompanying notes to financial statements.

HOOSIER ACADEMY INDIANAPOLIS

Statements of Activities

	Year Ended June 30, 2012			Year Ended June 30, 2011		
Revenue, Gains and Support	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
State education support	$ 3,687,097	-	3,687,097	3,016,969	-	3,016,969
Grant revenue	552,844	-	552,844	218,514	-	218,514
Contributions	2,284	-	2,284	500	-	500
Student fees	6,395	-	6,395	3,755	-	3,755
Interest income	1,796	-	1,796	2,308	-	2,308
Other income	20,919	-	20,919	4,408	-	4,408
Net assets released from restriction	-	-	-	74,495	(74,495)	-
	4,271,335	-	4,271,335	3,320,949	(74,495)	3,246,454
Expenses						
Program services:						
Educational instruction	3,237,969	-	3,237,969	2,253,503	-	2,253,503
Education support	382,757	-	382,757	359,624	-	359,624
Administrative	650,609	-	650,609	717,677	-	717,677
Total expenses	4,271,335	-	4,271,335	3,330,804	-	3,330,804
Change in net assets	-	-	-	(9,855)	(74,495)	(84,350)
Net assets, beginning of year	-	-	-	9,855	74,495	84,350
Net assets, end of year	$ -	-	-	-	-	-

See accompanying notes to financial statements.

HOOSIER ACADEMY INDIANAPOLIS

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2012	2011
Change in net assets	$ -	(84,350)
Adjustments to reconcile change in net assets		
to cash flows from operating activities:		
Depreciation	245,986	215,013
Rent expense paid by reduction of note receivable	19,318	39,642
Change in:		
Accounts receivable	(354,046)	(238,021)
Prepaid expenses	1,614	(21,432)
Accounts payable and accrued expenses	749,860	(118,511)
Deferred rent	(2,333)	467
Refundable advances	-	(12,441)
Net cash provided (used) by operating activities	660,398	(219,632)
Investing Activities		
Purchases of property and equipment	(209,357)	(79,856)
Principal repayment of note receivable	47,391	-
Net cash used by investing activities	(161,966)	(79,856)
Financing Activities		
Proceeds from Indiana Common School Fund loan	-	289,005
Proceeds from K12 Classroom, LLC loan	25,000	-
Repayments of K12 Classroom, LLC loan	(425,000)	-
Net cash provided (used) by financing activities	(400,000)	289,005
Net increase (decrease) in cash	98,432	(10,483)
Cash and cash equivalents, beginning of year	379,481	389,964
Cash and cash equivalents, end of year	$ 477,913	379,481
Supplemental disclosures:		
Cash payments for interest expense	$ -	-

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 20-24-3-1 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 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 Schools receive 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.

(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.

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

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	3 to 5 years

(1) Summary of Significant Accounting Policies, Continued

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.

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	$1,649,642	1,339,797
Special education grant	182,428	107,548
Restoration grant	-	57,825
Prime Time grant	10,050	-
Honors grant	450	-
	$1,842,570	1,505,170

(2) Accounts Receivable, Continued

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 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 loans from the Indiana Common School Fund (see Note 5).

(3) Note Receivable

Under terms of the facility lease agreement (see Note 6), the landlord agreed to provide funding of $179,200 toward leasehold improvements made by the School. Payment of this obligation was to be provided by an initial rent reduction of $39,900, then ratable reductions of $3,303 per month for a period of 24 months. On May 1, 2011, the unpaid balance of $74,159 was scheduled to become due. Because ownership of the building changed during the term of the facility lease agreement, the School continued to reduce its rent payments until November 2012 when the remaining balance was paid. This obligation accrued interest at 6.5% per annum.

(4) 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 $766,995 and $1,166,995, respectively. Due to cash shortages, the School has been unable to make payments as scheduled. 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 balance sheet. In addition, K12 Classroom, LLC has not required payment of interest and no accrued interest has been recorded.

(5) Long-Term Debt

Long-term debt at June 30, 2012 and 2011 represents two loans from the Indiana Common School Fund. The loans require semi-annual payments of principal and interest over periods of nine and twenty 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 again on July 1, 2013. The notes mature January 1, 2022 and January 1, 2033 and are secured by unpaid tuition support distributions (see Note 2).

Principal maturities under the loan agreements are as follows:

Year Ended June 30:	
2013	$ -
2014	119,742
2015	119,742
2016	119,742
2017	119,742
Thereafter	757,660
	$1,236,628

(6) 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 2013 and June 2017 respectively. The School made building improvements to the school facility and was granted rent reductions through April 2011 as a partial reimbursement for those costs. The rent obligation increases each year until the end of the lease term. 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, 2012 and 2011 under these operating leases was $402,048 and $308,375, respectively.

(6) Leases, Continued

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

Year Ended June 30:	
2013	$424,523
2014	269,132
2015	240,665
2016	229,395
2017	227,141

(7) Restricted Net Assets

Temporarily restricted net assets represent resources received from a grantor that had not been expended for the identified purposes as of June 30, 2010. During 2011, all remaining restricted net assets were released to cover professional fees and materials associated with operating the School.

(8) 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 derived from the Hoosier Academy Indianapolis school. Payments under this charter agreement were $89,311 and $80,435 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.

(8) Commitments, Continued

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 $932,787 and $715,978, 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 $2,425,381 and $1,809,863 for the years ended June 30, 2012 and 2011. This agreement remains in effect until June 30, 2013.

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	$932,787	2,425,381
Credits issued by K12 Classroom, LLC.	(932,787)	(1,744,163)
Net charges	$ -	681,218
Year Ended June 30, 2011:		
Charges per contract	$715,978	1,809,863
Credits issued by K12 Classroom, LLC.	(626,908)	(1,581,730)
Net charges	$ 89,070	228,133

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.

(9) 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 $129,740 and $96,420 for the years ended June 30, 2012 and 2011, respectively.

(10) 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, 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.

(11) 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	$1,323,483	198,394	184,791
Employee benefits	417,461	47,490	47,560
Professional services	61,698	47,297	175,970
Authorizer oversight fee	-	-	89,311
Food costs	-	29,545	-
Property rental and technology support	485,628	23,158	-
Classroom and office supplies	250,253	10,340	34,294
Occupancy	386,903	-	-
Depreciation	245,986	-	-
Interest	-	-	49,465
Other	66,557	26,533	69,218
	$3,237,969	382,757	650,609

HOOSIER ACADEMY INDIANAPOLIS

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

	2011		
	Educational Instruction	Education Support	Admini-strative
Salaries and wages	$1,042,639	157,742	255,766
Employee benefits	334,573	28,332	52,002
Professional services	33,275	94,822	114,331
Authorizer oversight fee	-	-	80,435
Administrative service fee	-	-	60,461
Food costs	-	28,634	-
Property rental and technology support	172,858	17,888	-
Classroom and office supplies	89,142	6,945	34,635
Occupancy	294,800	-	-
Depreciation	215,013	-	-
Interest	-	-	51,929
Other	71,203	25,261	68,118
	$2,253,503	359,624	717,677

HOOSIER ACADEMY INDIANAPOLIS

Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended 2012	2011
U.S. DEPARTMENT OF EDUCATION				
Pass-through Indiana Department of Education				
Title I, Part A Cluster				
Grants to Local Educational Agencies	84.010		$ 57,098	38,349
Special Education Cluster				
Special Education - Grants to States	84.027		129,555	19,464
ARRA--Special Education - Grants to States	84.391		-	5,054
Total for cluster			129,555	24,518
Charter Schools Program	84.282		241,780	96,507
Improving Teacher Quality State Grants	84.367		32,431	21,000
Education Jobs Fund	84.410		45,437	40,745
Total federal awards expended			$ 506,301	221,119

See accompanying Independent Auditors' Report.
See accompanying notes to this schedule.

HOOSIER ACADEMY INDIANAPOLIS

Notes to the Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Hoosier Academy Indianapolis ("the School") under programs of the federal government for the years ended June 30, 2012 and 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

The Board of Directors
Hoosier Academy, Inc.

We have audited the financial statements of **Hoosier Academy Indianapolis** (the "School") as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated December 17, 2012. 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.

Internal Control Over Financial Reporting

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

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the School are 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

This report is intended for the information of the Board of Directors, management, and 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.

Indianapolis, IN
December 17, 2012

Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Hoosier Academy, Inc.

Compliance

We have audited the compliance of **Hoosier Academy Indianapolis** (the "School") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the years ended June 30, 2012 and 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

As described in items 2012-1 and 2012-2 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding employee time records and teacher qualification records that are applicable to the Title I Grants to Local Educational Agencies Program. Compliance with such requirements is necessary, in our opinion, for the School to assure proper expenditure of funds applicable to that program.

In our opinion, except for the non-compliance described in the preceding paragraph, the School complied, in all material respects, with the compliance requirements referred to above

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 to be significant deficiencies.

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

Hogmd / Lunaeuc

Indianapolis, IN
December 17, 2012

HOOSIER ACADEMY INDIANAPOLIS

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	No
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Type of auditors' report issued on compliance for major programs:	Qualified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	Yes

I. Summary of Auditors' Results, Continued

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.282	Charter Schools Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee:	No

II. Financial Statement Findings

No matters are reportable.

III. Federal Award Findings and Questioned Costs

FINDING NO. 2012-1 EMPLOYEE TIME RECORDS

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Award Year:	FY 2010-11, FY 2011-12

Questioned Costs

Condition

The School did not maintain time records to support employee attendance records or the allocation of salaries to Title I activities.

Criteria
OMB Circular A-122 requires that "charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports....

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities...."

Cause
The School had not established procedures to obtain and compile employee data for time spent on Title I activities.

Effect
The failure to properly document employee attendance and time could result in funds being inappropriately charged to grant programs.

Context
Due to the lack of documentation, it was not possible to determine if salaries were improperly allocated. $ -0-

Recommendation
We recommend that the School implement a process for reporting time and effort spent by employees on Title I program activities.

Views of Responsible Officials and Planned Corrective Action
See attached letter of response from School officials.

	Questioned Costs
FINDING NO. 2012-2 TEACHER QUALIFICATIONS	
Federal Agency: U.S. Department of Education Pass-Through Agency: Indiana Department of Education Federal Program: Title I Grants to Local Educational Agencies CFDA Number: 84.010 Award Year: FY 2011-12	
Condition The School was unable to provide documentation of Title I teacher qualifications.	
Criteria 34 CFR 200.55 requires the School to verify that teachers hired to teach core academic subjects supported by Title I funds are highly qualified. Highly qualified is defined as a teacher who has obtained full state certification or passed the state teacher licensing exam, among other requirements.	
Cause The School did not retain documentation to support teacher qualifications.	
Effect The failure to verify qualifications could result in funds being inappropriately expended.	
Context Due to the lack of documentation, no determination of questioned costs was possible.	$ -0-

III. Federal Award Findings and Questioned Costs, Continued

	Questioned Costs
Recommendation We recommend that the School implement procedures to retain documentation in support of teacher qualifications.	
Views of Responsible Officials and Planned Corrective Action See attached letter of response from School officials.	
Total U.S. Department of Education................................	$ -0-

Summary Schedule of Prior Audit Findings

Years Ended June 30, 2012 and 2011

FINDING NO. 2010-1 CASH MANAGEMENT

Federal Agency:	U.S. Department of Education
Pass-Through Entity:	Indiana Department of Education
Federal Program:	Charter Schools Program
CFDA Number:	84.282
Award Year:	FY 2008-09 and 2009-10

Condition
This finding was a significant deficiency stating that excessive cash balances were noted in 9 of the 24 months examined.

Recommendation
The auditor recommended the development and implementation of procedures and controls to ensure that the time between the receipt and disbursement of federal funds is kept to a minimum.

Current Status
The recommendation was adopted. The School no longer requests cash in advance of the disbursement of federal funds. No similar finding was noted in the 2012 and 2011 audits.

HOOSIER ACADEMY INDIANAPOLIS

Other Reports

Years Ended June 30, 2012 and 2011

The reports presented herein were 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.*

HOOSIER ACADEMIES℠

Hoosier Academies Administration Center
2855 North Franklin Road
Indianapolis, IN 46219
P: 317.495.6494
F: 877.257.4615

Hoosier Academy Indianapolis
Year ending June 30, 2012 and 2011

FINDING NO. 2012-1 EMPLOYEE TIME RECORDS

Condition
The School did not maintain time records to support employee attendance records or the allocation of salaries to Title I activities.

Criteria
OMB Circular A-122 requires that "charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports....

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities...."

Cause
The School had not established procedures to obtain and compile employee data for time spent on Title I activities.

Effect
The failure to properly document employee attendance and time could result in funds being inappropriately charged to grant programs.

Context
Due to the lack of documentation, it was not possible to determine if salaries were improperly allocated. $ -0-

Recommendation
We recommend that the School implement a process for reporting time and effort spent by employees on Title I program activities.

Management Response
The Director of Academics will approve all wages associated with Title programs. The Director of Academics will implement a process for reporting time and effort logs, which will reflect the distribution of activities for each employee whose compensation is charged.

FINDING NO. 2012-2 TEACHER QUALIFICATIONS

Condition
The School was unable to provide documentation of Title I teacher Qualifications.

Criteria
34 CFR 200.55 requires the School to verify that teachers hired to teach core academic subjects supported by Title I funds are highly qualified. Highly qualified is defined as a teacher who has obtained full state certification or passed the state teacher licensing exam, among other requirements.

Cause
The School did not retain documentation to support teacher qualifications.

Effect
The failure to verify qualifications could result in funds being inappropriately expended.

Context
Due to the lack of documentation, no determination of questioned costs was possible. $ -0

Recommendation
We recommend that the School implement procedures to retain documentation in support of teacher qualifications.

Management Response
All current/active teachers will be notified to provide proof of certification/licensing requirements. Any teacher not in compliance will not be allowed to teach, until certification/licensing proof can be presented. A copy of certification/licensing support will be kept on file at the school office. All new hire teachers must present a copy of certification/licensing prior to beginning work and a copy of that support will be kept on file at the school office.

Annually, prior to the start of a new school year, any returning teacher's file will be reviewed for expired certification/licenses. Any teacher with expired certification/licenses will not be allowed to teach until proof of certification/license has been brought up to date.

John Marsh 2-4-13
Board President date

Teran Armstrong PhD 2-1-13
Head of Schools date