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STATE OF INDIANA

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April 2, 2015

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, 2012 to June 30, 2013. 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, 2013, 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, 2013 and 2012

Fitzgerald Isaac LLC
Certified Public Accountants

HOOSIER ACADEMY INDIANAPOLIS

Table of Contents

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, 2013 and 2012, 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.

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 statement of financial position as of June 30, 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, 2013. Accordingly, the change in net assets for the year ended June 30, 2013 and unrestricted net assets as of June 30, 2013 would be reduced by the same 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, 2013 and 2012 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.

Indianapolis, IN
December 16, 2014

HOOSIER ACADEMY INDIANAPOLIS

Statements of Financial Position

Assets	June 30 2013	June 30 2012
Current assets:		
Cash and cash equivalents	$ 885,439	477,913
Accounts receivable:		
State education support	163,940	1,842,570
Grants	57,531	19,008
K12 Classroom, LLC	4,000	67,257
Other	2,399	23,803
Prepaid expenses	45,675	27,885
Total current assets	1,158,984	2,458,437
Property and equipment:		
Leasehold improvements	777,312	777,312
Furniture and equipment	814,274	811,434
Less: accumulated depreciation	(885,121)	(667,073)
Property and equipment, net	706,465	921,673
	$ 1,865,449	3,380,110
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses:		
K12 Classroom, LLC	$ 1,660,432	948,934
Other	201,084	269,552
Note payable to K12 Classroom, LLC	-	766,995
Refundable advances	3,000	-
Deferred rent	933	6,067
Total current liabilities	1,865,449	1,991,548
Accrued interest on Common School Fund loans	-	151,934
Long-term debt	-	1,236,628
Total liabilities	1,865,449	3,380,110
Unrestricted net assets	-	-
	$ 1,865,449	3,380,110

See accompanying notes to financial statements.

HOOSIER ACADEMY INDIANAPOLIS

Statements of Activities

	Year Ended June 30	
Revenue and Support	2013	2012
State education support	$ 3,150,615	3,687,097
Grant revenue	182,228	552,844
Contributions	-	2,284
Student fees	2,272	6,395
Interest income	3,052	1,796
Other income	11,451	20,919
Total revenue and support	3,349,618	4,271,335
Expenses		
Program services:		
Educational instruction	2,606,703	3,237,969
Education support	329,910	382,757
Management and general	413,005	650,609
Total expenses	3,349,618	4,271,335
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	2013	2012
Change in net assets	$ -	-
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	218,048	245,986
Rent expense paid by reduction of note receivable	-	19,318
Change in:		
Accounts receivable	313,401	(354,046)
Prepaid expenses	(17,790)	1,614
Accounts payable and accrued expenses	665,836	749,860
Deferred rent	(5,134)	(2,333)
Refundable advances	3,000	-
Net cash provided by operating activities	1,177,361	660,398
Investing Activities		
Purchases of property and equipment	(2,840)	(209,357)
Principal repayment of note receivable	-	47,391
Net cash used by investing activities	(2,840)	(161,966)
Financing Activities		
Proceeds from K12 Classroom, LLC loan	-	25,000
Repayments of K12 Classroom, LLC loan	(766,995)	(425,000)
Net cash used by financing activities	(766,995)	(400,000)
Net increase in cash	407,526	98,432
Cash and cash equivalents, beginning of year	477,913	379,481
Cash and cash equivalents, end of year	$ 885,439	477,913
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 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 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 equal monthly installments in January through December following the start of 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.

(1) Summary of Significant Accounting Policies, Continued

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.

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, 2013 and 2012, 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 2012, 2011, and 2010 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through December 16, 2014, 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, 2013 and 2012:

	2013	2012
Tuition support	$ 1,409,327	1,649,642
Special education grant	153,827	182,428
Prime time grant	10,804	10,050
Honors grant	1,350	450
	1,575,308	1,842,570
Less: reduction for loan forgiveness	(1,411,368)	-
	$ 163,940	1,842,570

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 (see Note 4).

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 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 efforts are being made to resolve any outstanding obligations of the State with final resolution anticipated to occur during the next twenty-four months.

(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, the balance of outstanding loans was $766,995. The loans were repaid in 2013, and all interest charges were waived by the lender.

(4) Long-Term Debt

Long-term debt at June 30, 2012 represented two loans from the Indiana Common School Fund. The loans required semi-annual payments of principal and interest over periods of nine and twenty years, with interest at 4% per annum. In 2013, the outstanding loan and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

(5) 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, 2013 and 2012 under these operating leases was $452,960 and $402,048, respectively.

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

Year Ended June 30:	
2014	$ 411,465
2015	411,465
2016	400,195
2017	255,608

(6) 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 $42,280 and $89,311 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012 were $721,763 and $932,787, 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 $1,599,500 and $2,425,381 for the years ended June 30, 2013 and 2012. 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, 2013 and 2012, service fees were reduced as follows:

	Administrative and Technology Fees	Other Service Fees
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
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

(6) 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.

(7) 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 $70,831 and $129,740 for the years ended June 30, 2013 and 2012, respectively.

(8) 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, 2013, 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.

(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, 2013 and 2012:

	2013		
	Educational Instruction	Education Support	Admini-strative
Salaries and wages	$ 831,692	159,601	155,240
Employee benefits	234,134	42,602	36,918
Professional services	78,430	36,037	106,434
Authorizer oversight fee	-	-	42,280
Food costs	-	22,356	-
Property rental and technology support	313,120	37,612	-
Classroom and office supplies	437,331	7,194	15,674
Occupancy	438,698	-	-
Depreciation	218,048	-	-
Interest	-	-	22,806
Other	55,250	24,508	33,653
	$2,606,703	329,910	413,005

HOOSIER ACADEMY INDIANAPOLIS

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	2012		
	Educational Instruction	Education Support	Admini-strative
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

Other Reports

Year Ended June 30, 2013

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*.