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STATE OF INDIANA

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April 8, 2015

Charter School Board
Hoosier Academy Muncie, Inc.
5640 Caito Drive
Indinanapolis, 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 matters described in the Basis for Qualified Opinion paragraph, the financial statements included in the report present fairly the financial condition of the Hoosier Academy Muncie, Inc., 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 Muncie, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

HOOSIER ACADEMY MUNCIE, INC.

Financial Statements

June 30, 2013 and 2012

Fitzgerald Isaac LLC
Certified Public Accountants

HOOSIER ACADEMY MUNCIE, INC.

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Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hoosier Academy Muncie, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Hoosier Academy Muncie, Inc.**, which comprise the statement of financial position as of June 30, 2012, the statements of activities and cash flows for the years ended June 30, 2013 and 2012, the statement of net assets in liquidation as of June 30, 2013, the statement of changes in net assets in liquidation as of June 30, 2013, 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 3 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 $114,831. 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 $114,831 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 Muncie, Inc. as of June 30, 2012, the changes in its net assets and its cash flows for the years ended June 30, 2013 and 2012, its net assets in liquidation as of June 30, 2013, and the changes in its nets assets in liquidation as of June 30, 2013, in accordance with accounting principles generally accepted in the United States of America applied on the basis described in Note 2 to the financial statements.

Emphasis of Matter

As described in Note 2 to the financial statements, the Board of Directors approved a plan of dissolution to be effective June 30, 2013. As a result, the School changed its basis of accounting as of June 30, 2013 from the going-concern basis to a liquidation basis.

Fitzgerald Isaac LLC

Indianapolis, IN
December 16, 2014

HOOSIER ACADEMY MUNCIE, INC.

Statement of Financial Position

Assets	June 30, 2012
Current assets:	
Cash	$ 123,028
Accounts receivable:	
State education support	337,217
Grants	2,431
Other	-
Prepaid expenses	1,598
Total current assets	464,274
Property and equipment:	
Leasehold improvements	69,913
Furniture and equipment	513,694
Less: accumulated depreciation	(357,252)
Property and equipment, net	226,355
	$ 690,629

Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 51,425
Note payable to K12 Classroom, LLC	330,470
Total current liabilities	381,895
Accrued interest on Common School Fund loan	36,322
Long-term debt	272,412
Total liabilities	690,629
Unrestricted net assets (deficiency)	-
	$ 690,629

See accompanying notes to financial statements.

HOOSIER ACADEMY MUNCIE, INC.

Statements of Activities

	Year Ended June 30	
Revenue and Support	2013	2012
State education support	$ 861,658	674,936
Grant revenue	62,322	103,430
K12 Classroom, LLC	136,754	320,597
Other income	1,658	4,640
Total revenue and support	1,062,392	1,103,603
Expenses		
Program services:		
Educational instruction	740,157	688,968
Education support	106,540	158,384
Administrative	164,470	256,251
Total expenses	1,011,167	1,103,603
Change in net assets	51,225	-
Net assets, beginning of year	-	-
Net assets, end of year	$ 51,225	-

See accompanying notes to financial statements.

HOOSIER ACADEMY MUNCIE, INC.

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2013	2012
Change in net assets	$ 51,225	-
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	161,691	115,463
Loss on disposal of property and equipment	13,440	-
Forgiveness of loan obligation	(152,498)	(269,530)
Change in:		
Accounts receivable	(132,012)	49,537
Prepaid expenses	1,598	2,032
Accounts payable and accrued expenses	23,252	(51,495)
Net cash used by operating activities	(33,304)	(153,993)
Investing Activities		
Purchases of property and equipment	-	(27,401)
Net cash used by investing activities	-	(27,401)
Financing Activities		
Proceeds from K12 Classroom, LLC loan	-	240,000
Net cash provided by financing activities	-	240,000
Net increase (decrease) in cash	(33,304)	58,606
Cash, beginning of year	123,028	64,422
Cash, end of year	$ 89,724	123,028
Supplemental disclosures:		
Cash payments for interest expense	$ -	-

See accompanying notes to financial statements.

HOOSIER ACADEMY MUNCIE, INC.

Statement of Net Assets in Liquidation

Assets		June 30, 2013
Cash	$	89,724
Accounts receivable:		
State education support		114,831
Grants		40,431
Other		400
Property and equipment		22,514
Total assets		267,900
Liabilities		
Accounts payable and accrued expenses:		89,927
Note payable to K12 Classroom, LLC		177,973
Total liabilities		267,900
Unrestricted net assets	$	-

See accompanying notes to financial statements.

HOOSIER ACADEMY MUNCIE, INC.

Statement of Changes in Net Assets in Liquidation

Net assets as of June 30, 2013 on going concern basis	$	51,225
Increases (decreases) in net assets:		
Adjustment of property and equipment to net realizable value		(28,711)
Contributions to other educational organizations		(22,514)
Total		(51,225)
Net assets as of June 30, 2013 on liquidation basis	$	-

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

General

Hoosier Academy Muncie, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and sponsored by Ball State University. The School commenced operations as of July 1, 2008. The School has entered into a service agreement with K12 Classroom, LLC to provide administrative and technology services. Effective June 30, 2013, the School adopted a resolution to suspend operations and dissolve the Corporation.

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.

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.

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

Hoosier Academy Muncie, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School is subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 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 the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2012, 2011, and 2010 are open to audit for both federal and state purposes.

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives have been capitalized and 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 have been charged to expense as incurred.

Depreciation has been provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally were as follows:

Leasehold improvements............................	40 years
Furniture and equipment	3 to 7 years

Effective June 30, 2013, property and equipment was restated to reflect net realizable value in response to the plan of dissolution.

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through December 16, 2014, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

(2) Basis of Accounting

In May 2013, the School received notification from its charter sponsor, Ball State University, that it would not be renewing the School's charter effective with the expiration on June 30, 2013. The School was unable to obtain another charter sponsor and the Board of Directors authorized the dissolution of the corporation effective June 30, 2013. As a result, the School changed its basis of accounting from the going concern basis to the liquidation basis, in which assets are carried at estimated net realizable value and liabilities are recorded at the amount of cash expected to be paid. Subsequent to June 30, 2013, the School liquidated assets, donated property and equipment, and paid its obligations. Any resources remaining are to be returned to the State of Indiana.

(3) Accounts Receivable

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2013 and 2012:

Tuition support	$361,773	265,253
Special education grant	68,819	71,964
Prime Time grant	237	-
	430,829	337,217
Less: reduction for loan forgiveness	(315,998)	(-)
	$114,831	337,217

(3) Accounts Receivable, Continued

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 5).

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 $315,998 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.

(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, 2013 and 2012, the balance of outstanding loans was $330,470. Due to cash shortages, the School has been unable to make payments. K12 Classroom, LLC has not made an attempt to obtain payment and the School has continued to reflect the balance of the note as currently payable in the accompanying statements of financial position.

(5) Long-Term Debt

Long-term debt at June 30, 2012 represented a loan from the Indiana Common School Fund. The loan required semi-annual payments of principal and interest over a period of nine 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 3).

(6) Leases

The School leased its facilities and one item of equipment under operating leases. Total expense under these operating leases for the years ended June 30, 2013 and 2012 was $84,592 and $80,202, respectively. The leases terminated as of June 30, 2013.

(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 Section 403(b) plan offered through the Indiana Public Charter School Association. The School also contributes 7% of compensation to the Section 403(b) plan. Substantially all full-time employees are eligible to participate. Retirement plan expense was $23,479 and $35,104 for the years ended June 30, 2013 and 2012, respectively.

(8) Commitments

The School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School 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 $19,566 and $13,373 for the years ended June 30, 2013 and 2012, respectively.

The School contracted with K12 Classroom, LLC to provide administrative and technology services. Under the terms of the agreement, the School 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 $188,894 and $171,241, respectively. The School also purchased certain curriculum supplies and materials for which the School was billed as goods and services are received. Such purchases aggregated $356,679 and $695,685 for the years ended June 30, 2013 and 2012.

K12 Classroom, LLC 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	$ 188,894	356,679
Credits issued by K12 Classroom, LLC	(188,894)	(356,679)
Net charges	$ -	-
Year Ended June 30, 2012:		
Charges per contract	$171,241	695,685
Credits issued by K12 Classroom, LLC	(171,241)	(695,685)
Net charges	$ -	-

The School's operating deficit for the years ended June 30, 2013 and 2012 exceeded charges from K12 Classroom, LLC by $136,754 and $320,597, respectively. As a result, K12 Classroom, LLC agreed to make contributions of these amounts in order to eliminate the deficits.

(8) Commitments, Continued

The deficit credits provided by K12 Classroom, LLC were subject to repayment if the School experienced a surplus in subsequent fiscal years. The amount of the repayment was 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.

(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	Administrative
Salaries and wages	$310,292	36,700	64,241
Employee benefits	95,792	5,801	14,927
Professional services	50,363	33,327	37,963
Staff development and recruitment	-	-	-
Authorizer oversight fee	-	-	10,853
Food costs	-	12,973	-
Property rental and technology support	97,369	-	-
Classroom and office supplies	1,060	6,307	5,592
Occupancy	10,150	-	-
Depreciation	161,691	-	-
Interest	-	-	7,265
Insurance	-	-	10,520
Other	13,440	11,432	13,109
	$740,157	106,540	164,470

(9) Functional Expense Reporting, Continued

	2012		
	Educational Instruction	Education Support	Admini-strative
Salaries and wages	$296,138	54,746	106,323
Employee benefits	104,856	9,525	26,308
Professional services	63,999	57,153	63,111
Staff development and recruitment	-	328	-
Authorizer oversight fee	-	-	13,373
Food costs	-	14,709	-
Property rental and technology support	94,883	-	-
Classroom and office supplies	3,639	6,656	6,587
Occupancy	9,991	-	-
Depreciation	115,462	-	-
Interest	-	-	10,896
Insurance	-	-	12,572
Other	-	15,267	17,081
	$688,968	158,384	256,251

HOOSIER ACADEMY MUNCIE, INC.

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 Muncie, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools.*