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January 27, 2017

Charter School Board
Indiana Virtual School
510 E 96 St., Ste. 180
Indianapolis, IN 46240

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Charles Madden PC, Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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 Indiana Virtual School, as of June 30, 2015, 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 Indiana Virtual School 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

**BUSINESS CONSULTING, INC. dba
INDIANA VIRTUAL SCHOOL**

INDIANAPOLIS, INDIANA

AUDITED FINANCIAL STATEMENTS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014**

BUSINESS CONSULTING, INC. dba
INDIANA VIRTUAL SCHOOL

INDIANAPOLIS, INDIANA

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INDEPENDENT AUDITOR'S REPORT

Business Consulting Inc. dba
Indiana Virtual School
510 E. 96th St., Suite 180
Indianapolis, IN 46240

We have audited the accompanying financial statements of Business Consulting Inc. dba Indiana Virtual School (a nonprofit Corporation), which comprise the statements of financial position as of June 30, 2015 and 2014 and the related statements of activities and change in net assets 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 audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Business Consulting Inc. dba Indiana Virtual School as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Charles Madden PC

Indianapolis, IN
December 9, 2016

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BUSINESS CONSULTING, INC. dba
INDIANA VIRTUAL SCHOOL

EXHIBIT A

INDIANAPOLIS, INDIANA

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 71,900	\$ 8,595
Prepaid rent	<u>57,978</u>	<u>0</u>
Total – Current Assets	129,878	8,595
Property and Equipment (Note 1):		
Office Furniture and Equipment	\$ 0	\$ 27,467
Less: Accumulated depreciation	<u>0</u>	<u>(14,939)</u>
Total – Net Property and Equipment	<u>\$ 0</u>	<u>\$ 12,528</u>
Other Assets		
Note Receivable – Related Party (Note 2, 7)	<u>\$ 651,723</u>	<u>\$ 0</u>
Total – Assets	<u>\$ 781,601</u>	<u>\$ 21,123</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 592,359	\$ 452,673
Tuition reserve (Note 3)	14,980	14,980
Accrued legal settlement (Note 4)	200,000	0
Other accrued liabilities	<u>0</u>	<u>4,897</u>
Total – Current Liabilities	\$ 807,339	\$ 472,550
Net Assets:		
Unrestricted net assets (deficiency)	<u>\$ (25,738)</u>	<u>\$ (451,427)</u>
Total – Liabilities and Net Assets	<u>\$ 781,601</u>	<u>\$ 21,123</u>

The Accompanying Notes are an integral part of these Financial Statements.

BUSINESS CONSULTING, INC. dba
INDIANA VIRTUAL SCHOOL

EXHIBIT B

INDIANAPOLIS, INDIANA

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
State education support	\$ 3,617,373	\$ 476,959
Contributions	26,288	30,520
Miscellaneous revenue	<u>1,795</u>	<u>0</u>
Total – Revenues and Other Support	\$ 3,645,456	\$ 507,479
EXPENSES AND LOSSES		
Program Services	\$ 2,125,459	\$ 658,285
Management and general	<u>881,780</u>	<u>42,635</u>
Total – Expenses	\$ 3,007,239	\$ 700,920
Loss on disposal of furniture and equipment	\$ 12,528	\$ 0
Legal settlement (Note 4)	<u>200,000</u>	<u>0</u>
Total – Expenses and Losses	\$ 3,219,767	\$ 700,920
Change in Net Assets	\$ 425,689	\$ (193,441)
Net assets (deficiency) – beginning of year	<u>(451,427)</u>	<u>(257,986)</u>
Net assets (deficiency) – end of year	<u>\$ (25,738)</u>	<u>\$ (451,427)</u>

The Accompanying Notes are an integral part of these Financial Statements.

BUSINESS CONSULTING, INC. dba
INDIANA VIRTUAL SCHOOL

EXHIBIT C

INDIANAPOLIS, INDIANA

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FROM (USED IN) OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ <u>425,689</u>	\$ <u>(193,441)</u>
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	\$ 0	\$ 4,980
(Increase) in prepaid rent	(57,978)	0
Increase in accounts payable and accrued expenses	334,789	196,977
Loss on disposal of assets	<u>12,528</u>	<u>0</u>
Total Adjustments	\$ <u>289,339</u>	\$ <u>201,957</u>
Cash from operating activities	715,028	8,516
FINANCING ACTIVITIES		
Increase in advance to related party	\$ <u>(651,723)</u>	\$ <u>0</u>
Net Increase in cash	\$ 63,305	\$ 8,516
CASH-Beginning of Year	\$ <u>8,595</u>	\$ <u>79</u>
CASH-End of Year	<u>\$ 71,900</u>	<u>\$ 8,595</u>

The Accompanying Notes are an integral part of these Financial Statements.

BUSINESS CONSULTING, INC. dba
INDIANA VIRTUAL SCHOOL

INDIANAPOLIS, INDIANA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Business Consulting, Inc. dba Indiana Virtual School (“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 is sponsored by Daleville Community Schools. The School commenced operations with the 2011-2012 school year.

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 public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments from July through June following the start of the school year. Revenue is recognized in the school year in which educational services are rendered.

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of less than three months to be cash equivalents.

Advertising Expense

The School expenses advertising as incurred. During 2015, advertising costs totaled \$92,154.

Basis of Presentation

In accordance with FASB Accounting Standards Codification, the net assets of the School are reported in each of the following three classes;

- (1) Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.
- (2) Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or the passage of time.
- (3) Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the School. Generally the donors of these assets permit the School to use all or part of the income earned on any related investments for general or specific purposes.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets, depending on the restriction. When a 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 restrictions. Restrictions of gifts of fixed assets or contributions restricted for the purchase of fixed assets expire when the asset is placed in service unless otherwise stipulated by the donor. There were no restricted funds received during 2015. All net assets are unrestricted, undesignated as of June 30, 2015.

Income Taxes

The School is a non-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and state income taxes under the Indiana General Not-For-Profit Act.

Accounting Standards requires entities to disclose in the financial statements the nature of any uncertainties in their tax position. Tax years including 2012 and later are subject to examination by tax authorities. Areas that IRS and state tax authorities consider when examining tax returns of a charity include, but may not be limited to, tax-exempt status and the existence and amount of unrelated business income. The School does not believe that it has any uncertain tax positions with respect to these or other matters, and therefore has not recorded any unrecognized tax benefits or liabilities. The School is not aware of any circumstances or events that make it reasonably possible that tax benefits may increase or decrease within twelve months of the date of these financial statements.

Property and Equipment

Purchases of 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 \$100 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:

Furniture and equipment	3 to 7 years
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Reclassification

Certain items in the June 30, 2014 financial statements have been reclassified to conform to the presentation of the June 30, 2015 financial statements. The reclassifications had no effect of reported change in net assets, total assets, liabilities, net assets or cash flows.

NOTE 2: RELATED PARTY:

The School is related to AlphaCom Inc (AlphaCom) in that they have a common board member who is an employee of AlphaCom and serves as the Senior Development Consultant for the School billed through AlphaCom. AlphaCom provides management services to the School under a contract that is renewable annually, and provides an hourly billing rate for the key personnel of the School. In addition to these services, AlphaCom provides support, administrative and technology services. Under the terms of the agreement the School has agreed to pay an amount not to exceed 25% of the Basic Grant revenue for operational support and to pay \$120 per student for educational platform technology services, and \$35 per student for standardized educational services.

During fiscal years ended June 30, 2015 and 2014, AlphaCom charged the School a total of \$1,690,352 and \$475,850, respectively (see Note 6). At June 30, 2015 and 2014 the School owed AlphaCom \$377,639 and \$334,686, respectively. The School also entered into a building lease with AlphaCom in September 2014 (see Note 8). Subsequent to the balance sheet date, AlphaCom agreed to reverse billings in the amount of \$651,723. See Note 7 for the detail related to the payback of these billings.

The School is also related to another company, A Simple Reminder, in that the owner is a family member of a board member of the School. A Simple Reminder provides IT services under contract. During the fiscal years ended June 30, 2015, A Simple Reminder charged the School \$567,813. At June 30, 2015 the School owed A Simple Reminder \$9,180.

NOTE 3: TUITION RESERVE:

The School booked a tuition reserve liability to reflect the possible repayment of student tuition to the state of Indiana. The school could not locate four (4) student enrollment folders as proof of enrollment in the 2011-2012 school year. Thus, the following calculation was completed to determine the amount of the reserve:

Total tuition assistance for 2011-2012 school year	\$ 33,705
Divided by total ADM claimed	<u>9</u>
Tuition assistance per student	\$ 3,745
Multiplied by number of missing folders	<u>4</u>
Tuition reserve liability	<u>\$ 14,980</u>

As of the date of this report, the School was in communication with the Department of Education to determine the actual amount owed back to the State, if any.

NOTE 4: COMMITMENTS AND CONTINGENCIES:

The School operates under a charter granted by Daleville Community Schools. As the sponsoring organization, Daleville Community Schools exercises certain oversight responsibilities. The charter was renewed on July 22, 2015 and is effective for five (5) years plus 45 days after the end of the fifth year and is renewable thereafter by mutual consent.

The School was involved in litigation brought upon by a former teacher seeking unpaid compensation, damages and fees in the amount of \$616,008.

Based on a settlement agreement reached with the former teacher, the total liability is \$200,000 to be paid in six installments from April 2016 through September 2016.

Concentration of Cash Deposit and Uninsured Cash Balances

The School has concentrated its credit risk for cash by maintaining deposits in two financial institutions which may at times exceed amounts covered by insurance provided by the U. S. Federal Deposit Insurance Corporation (FDIC). At June 30, 2015 and 2014, the School had no uninsured cash balances. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

NOTE 5: RISKS AND UNCERTAINTIES:

The School provides educational instruction services to families residing 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. 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.

NOTE 6: FUNCTIONAL EXPENSE REPORTING:

The costs of providing educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and administrative services. Following is a summary of expenses comprising each program and service for the year ended June 30, 2015 and June 30, 2014.

	<u>June 30, 2015</u>	
	<u>Program Services</u>	<u>Management and General</u>
Management fees	\$1,052,767	\$ 579,607
Professional fees	173,483	60,248
School professionals under contract	413,381	
Course modification	151,313	
Online courses	322,144	
Web design		7,246
Insurance		8,351
Advertising		92,154
Dues & subscriptions		7,203
Information Technology		14,882
Charter authorization fee		105,773
Supplies & other		6,316
Other	<u>12,371</u>	
	<u>\$2,125,459</u>	<u>\$ 881,780</u>

	<u>June 30, 2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
Management fees	\$ 475,850	\$
Professional fees	5,767	29,779
Teacher payroll		
Salaries & wages	135,282	
Payroll taxes	6,151	
Online courses	35,235	
Insurance		5,136
Dues & subscriptions		1,800
Depreciation expense		4,980
Supplies & other		940
	<u>\$ 658,285</u>	<u>\$ 42,635</u>

NOTE 7: SUBSEQUENT EVENTS:

The School evaluated subsequent events through December 9, 2016, 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. See Note 9 regarding change of Entity.

Subsequent to the balance sheet date AlphaCom agreed to reverse \$651,723 in billings to the School and to repay this amount over a five year period beginning January 20, 2017. The agreement calls for monthly payments of \$11,711 which includes interest at an annual rate of 3%. Future principle payments are as follows:

	<u>Year Ending</u>
6/30/17	\$ 60,867
6/30/18	124,504
6/30/19	128,291
6/30/20	132,193
6/30/21	136,215
6/30/22	<u>69,653</u>
	<u>\$651,723</u>

NOTE 8: OPERATING LEASE:

The School began leasing the building it uses in operations in November 2014 through a sublease agreement with AlphaCom. (see Note 2). Total rental payments were \$231,890 for the year ended June 30, 2015. The School expanded the amount of office space they rent during 2016 and began an additional lease for this space June 1, 2016. Both leases run through May 31, 2023 with future minimum annual rent as follows:

	<u>Fiscal Year Ending June 30</u>
2016	\$ 195,147
2017	417,319
2018	427,783
2019	438,474
2020	449,784
2021 and beyond	<u>1,385,541</u>
	<u>\$ 3,314,048</u>

NOTE 9: CHANGE OF ENTITY:

Business Consulting, Inc. dba Indiana Virtual School entered into a purchase agreement on December 31, 2015 with Indiana Virtual Education Foundation (“IVEF”) to sell and assign all assets and liabilities of the school to IVEF for \$35,000. As of January 1, 2016 IVEF owns and operates Indiana Virtual School and Business Consulting, Inc. has no ownership stake in the entity.

BUSINESS CONSULTING, INC. dba
INDIANA VIRTUAL SCHOOL

INDIANAPOLIS, INDIANA

OTHER REPORTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

Supplemental Audit Report of Business Consulting, Inc. dba Indiana Virtual School

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*.