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March 19, 2019

Indiana Virtual Education Foundation, Inc.  
d/b/a Indiana Virtual School  
510 E 96 St., Ste. 180  
Indianapolis, IN 46240

We have received the audit report of Indiana Virtual School which was prepared and opined upon by Huth Thompson, LLP, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. Per Huth Thompson, LLP's *Independent Auditor's Report*, the financial statements present fairly the financial condition of Indiana Virtual School as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The audit report is filed with this letter in our office as a matter of public record.

In addition to the report presented herein, a Supplemental Audit Report for Indiana Virtual School was prepared and opined upon by Huth Thompson, LLP in accordance with the guidelines established by the State Board of Accounts and has been filed separately.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

*Financial Statements*

**INDIANA VIRTUAL EDUCATION  
FOUNDATION, INC.**

**d/b/a INDIANA VIRTUAL SCHOOL**

**JUNE 30, 2016**

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

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## **INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors  
Indiana Virtual Education Foundation, Inc.  
d/b/a Indiana Virtual School  
Indianapolis, Indiana**

**We have audited the accompanying financial statements of Indiana Virtual Education Foundation, Inc. d/b/a Indiana Virtual School (a nonprofit School), which comprise the statement of financial position as of June 30, 2016, 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 audit. We conducted our audit 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.**

## INDEPENDENT AUDITOR'S REPORT--CONTINUED

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Virtual Education Foundation, Inc. d/b/a Indiana Virtual School as of June 30, 2016, 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.

*Huth Thompson LLP*

January 4, 2019  
Lafayette, Indiana

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**STATEMENT OF FINANCIAL POSITION  
As of June 30, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 100,779
Note Receivable--	
Related Party, Current Portion	64,572
Prepaid Software License Fees	2,364,591
Prepaid Rent	<u>46,382</u>

**TOTAL CURRENT ASSETS** **2,576,324**

**OTHER ASSETS**

Goodwill	388,450
Note Receivable--	
Related Party, Long-Term Portion	<u>587,151</u>
	<u>975,601</u>

**TOTAL ASSETS** **\$ 3,551,925**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable--Related Party	\$ 519,437
Accrued Legal Settlement	<u>90,000</u>

**TOTAL CURRENT LIABILITIES/ TOTAL LIABILITIES** **609,437**

**NET ASSETS, Unrestricted, Undesignated** **2,942,488**

**\$ 3,551,925**

See Notes to Financial Statements.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

	<u>Unrestricted</u>
<b>REVENUE AND OTHER SUPPORT--</b>	
State Tuition Support	\$ 9,754,610
Contributions	1,500
Program Income	<u>5,441</u>
	9,761,551
<b>EXPENSES--</b>	
Program Services	5,430,213
Management and General	<u>2,230,457</u>
	<u>7,660,670</u>
<b>INCREASE IN NET ASSETS BEFORE OTHER INCOME</b>	<b>2,100,881</b>
<b>OTHER INCOME--</b>	
BCI Acquisition	362,711
Recovery of Bad Debts	14,981
Forgiveness of Debt	<u>463,915</u>
Total Other Income	841,607
<b>INCREASE IN NET ASSETS</b>	<b>2,942,488</b>
<b>NET ASSETS--Beginning of Year</b>	<u>-</u>
<b>NET ASSETS--End of Year</b>	<u><u>\$ 2,942,488</u></u>

See Notes to Financial Statements.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase in Net Assets	\$ 2,942,488
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities--	
Forgiveness of Debt	(463,915)
(Increase) Decrease in Assets--	
Prepaid Rent	11,595
Prepaid Software License Fees	(2,364,591)
Increase (Decrease) in Liabilities--	
Accounts Payable-Related Party	66,880
Accrued Legal Settlement	<u>(110,000)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 82,457

**INCREASE IN CASH** 82,457

**CASH--Beginning of Year**

Business Consulting, Inc. (See Details Below)	<u>18,322</u>
---	---------------

**CASH--End of Year** \$ 100,779

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

**Non-Cash Investing and Financing Information--**

On December 31, 2015, a buyout agreement was executed between Indiana Virtual Education Foundation, Inc. (the School) and Business Consulting, Inc. (BCI) to purchase all existing assets and liabilities of BCI. See additional details in Footnote 2 of the Financial Statements. As a result of this buyout agreement, the school effectively purchased the following from BCI on December 31, 2015, which resulted in Goodwill being recorded:

Cash	\$ 18,322
Prepaid Rent	57,977
Note Receivable--Related Party	651,723
Accounts Payable--Related Party	901,492
Accounts Payable	14,980
Accrued Legal Settlement	200,000
Goodwill	388,450

See Notes to Financial Statements.



**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the Indiana Virtual Education Foundation, Inc. d/b/a Indiana Virtual School's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

- A) **Nature of Operations**--Indiana Virtual Education Foundation, Inc. d/b/a Indiana Virtual School (the School) is a public benefit non-profit School 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 during the 2015-2016 school year.
- B) **Cash Equivalents**--For purposes of the statements of cash flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.
- C) **Estimates**--Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could differ from those estimates.
- D) **Note Receivable**--Note receivable consists of a related party loan (see Note 3) to AlphaCom, Inc. (AlphaCom) for value received. No allowance was deemed necessary by management.
- E) **Net Assets**--In accordance with the FASB Accounting Standards Codification (Accounting Standards), 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.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.**  
**d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**E) Net Assets (Continued)--All donor-restricted contributions are reported 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. It is the School's policy to account for temporarily restricted contributions as unrestricted if the donor-imposed stipulation is met in the same year as the contribution. Restrictions on 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. Restricted funds received as of June 30, 2016 were \$-0-. All net assets are unrestricted, undesignated as of June 30, 2016.**

**F) Income Tax Status--The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.**

**Accounting Standards require entities to disclose in their financial statements the nature of any uncertainties in their tax position. Tax year 2016 remains open and is 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 12 months of the date of the financial statements.**

**G) Advertising--The School expenses the costs of advertising as incurred. Total advertising expense was \$471 for the year ended June 30, 2016.**

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

- H) 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 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.

**NOTE 2: REPORTING ENTITY AND BUSINESS CONSULTING, INC. (BCI) PURCHASE**

Effective December 31, 2015, the School entered into a purchase and assignment agreement with BCI. Under this agreement the School:

- Acquired all existing assets and liabilities of BCI as of December 31, 2015
- Became the reporting entity for Indiana Virtual School as of January 1, 2016
- Acquired the right to do business as Indiana Virtual School
- Assumed all rights and obligations of all existing BCI contracts as of January 1, 2016

Based on the agreement the School recorded the amounts noted in the Statement of Cash Flows, Supplemental Disclosures of Cash Flow Information section on Page 5.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**NOTE 2: REPORTING ENTITY AND BUSINESS CONSULTING, INC. (BCI) PURCHASE  
(Continued)**

As prescribed by the State of Indiana, State Board of Accounts, as all educational contracts transferred to the School directly with this purchase, the Statement of Activities for the year ended June 30, 2016, includes the entire year's activities of BCI (six months from July 1, 2015 through December 31, 2015) and the School (January 1, 2016 through June 30, 2016). In order to show the gross income and expense of both entities but the net assets of only the surviving entity at June 30, 2016, a resulting "other income" in the amount of \$362,711 was added to the Statement of Activities as BCI incurred a loss for the six months ended December 31, 2015.

**NOTE 3: NOTE RECEIVABLE**

Note Receivable consisted of the following as of June 30, 2016:

AlphaCom, Inc--

Note dated December 2016 with payments beginning in January 2017. Principal and interest payments of \$11,711 due monthly through November 2021 at an interest rate of 3%.

**\$ 651,723**

Less Current Portion

**(64,572)**

**\$ 587,151**

Scheduled collections on the note receivable consist of the following for the year ended June 30:

2017	<b>\$ 61,161</b>
2018	<b>124,513</b>
2019	<b>128,300</b>
2020	<b>132,203</b>
2021	<b>136,224</b>
Thereafter	<b><u>69,322</u></b>
	<b><u>\$ 651,723</u></b>

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**NOTE 4: PREPAID SOFTWARE LICENSE FEES**

During the fiscal year, the School entered into a contract with AlphaCom, Inc. for the development of the software products used in the School's internet courses, of which the School will only retain the right to license the software. The contract expires upon completion of the software project. As of June 30, 2016, the software was not fully completed. As such, prepaid software license fees totaled \$2,364,591 as of June 30, 2016. The contracted project was subsequently completed in fiscal year 2017 and costs expended.

**NOTE 5: GOODWILL**

The accounting for the purchase of BCI (see Footnote 2) resulted in the School recognizing goodwill of \$388,450. Under generally accepted accounting principles for a non-profit entity, the carrying amount of goodwill is not amortized but is reduced if management determines that its implied fair value has been impaired. As of June 30, 2016, management has determined no impairment loss exists.

**NOTE 6: RELATED PARTIES**

The School is related to AlphaCom, Inc. in that they have a common board member who is an owner/employee of AlphaCom, Inc. and serves as the Senior Development Consultant for the School billed through AlphaCom, Inc. AlphaCom, Inc. 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, Inc. provides support, administrative services, 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 \$35-45 per student for standardized educational services.

During the fiscal year ended June 30, 2016, AlphaCom, Inc. charged the School a total of \$6,156,179. At June 30, 2016, the School owed AlphaCom, Inc. \$335,021. For the year ended June 30, 2016, AlphaCom, Inc. forgave \$463,915 in billings.

The School is also related to another company, A Simple Reminder, in that the owner is a family member of the board member of the School. A Simple Reminder provides IT and marketing services under contract. During the fiscal year ended June 30, 2016, A Simple Reminder charged the School \$1,255,000. As of June 30, 2016, the School owed A Simple Reminder \$150,000.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**NOTE 7: 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 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. During the year ended June 30, 2016, the School made payments in total of \$110,000. The School owed \$90,000 to the former teacher as of June 30, 2016.

**NOTE 8: ECONOMIC DEPENDENCE AND CONCENTRATION OF FUNDING**

The School was economically dependent on the funding from the Department of Education. Funding from this source approximates 92% of the School's total revenue and support as of June 30, 2016.

**NOTE 9: 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.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.**  
**d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**NOTE 10: CONCETRATION OF CREDIT RISK**

At certain times during the year, the School may maintain cash deposits which exceed the \$250,000 amount insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2016, 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 11: OPERATING LEASE**

The School began leasing the building it uses in operations through a sublease agreement with AlphaCom, Inc. Total rental payments were \$189,309 for the year ended June 30, 2016. The School expanded the amount of office space they rented 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:

2017	\$ 194,371
2018	199,221
2019	204,248
2020	209,363
2021	214,566
Thereafter	219,946
	<u>\$ 1,241,715</u>

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2016

**NOTE 12: FUNCTIONAL EXPENSES**

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. The following is a summary of expenses comprising each functional basis for the year ended June 30, 2016. There were no fundraising costs incurred.

<b>2016</b>	<b>Total Expenses</b>	<b>Program Services</b>	<b>Management and General</b>
On-Line Courses	\$ 3,689,227	\$ 2,766,921	\$ 922,306
Technology Fee	322,896	242,172	80,724
Operations Fee	564,056	423,042	141,014
Supplies and Other	68,105	59,491	8,614
Academy Development	14,505	14,505	-
Service Fee	708,920	-	708,920
Public Information and Awareness	682,417	682,417	-
Professional Fees	417,664	319,204	98,460
Charter Authorization Fee	270,194	-	270,194
Instructors	832,892	832,892	-
Outside Facility Rental	36,764	36,764	-
IEP Expense	5,053	5,053	-
Advertising	471	471	-
Staff Development	7,617	7,617	-
Insurance	15,994	15,994	-
Conferences	22,373	22,373	-
Bank Service Charge	225	-	225
Membership and Dues	1,297	1,297	-
	<u>\$ 7,660,670</u>	<u>\$ 5,430,213</u>	<u>\$ 2,230,457</u>



**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.  
d/b/a INDIANA VIRTUAL SCHOOL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**NOTE 13: SUBSEQUENT EVENTS**

Subsequent to June 30, 2016, the following occurred:

- Effective July 1, 2016, Mr. Thomas Stoughton (IVEF board member) sold his entire interest in AlphaCom, Inc.
- Effective October 18, 2017, Mr. Thomas Stoughton resigned from the board of directors of the School.
- The School continued to fund prepaid software development costs for its Management and Student Information Systems (MIS/SIS) and Educational Gaming courses in the total amount of \$5,602,249 through the period ending December 31, 2018. During that time \$4,968,540 was expensed, leaving a net addition to prepaid software development costs of \$633,709. The School ceased funding prepaid development software costs effective December 31, 2018.
- The School formed a new online virtual public charter school in 2017, Indiana Virtual Pathways Academy (IVPA). Funding from the state for these schools combined, for each fiscal year is summarized below. In each instance, the authorizer receives a fee equal to 3% of the state revenue.
  - \$20,070,874 for the fiscal year ended June 30, 2017.
  - \$36,627,559 for the fiscal year ended June 30, 2018.
  - Anticipates \$45,557,567 for fiscal year ended June 30, 2019.
- Additionally, these schools received a special education grant from the Indiana Department of Education in the combined amounts below:
  - \$223,200 for the fiscal year ended June 30, 2017.
  - \$318,637 for the fiscal year ended June 30, 2018.

The School has evaluated subsequent events through January 4, 2019, the date which the financial statements were available to be issued.