



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B42935

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

October 29, 2013

Charter School Board
Indiana Connections Academy, Inc.
6640 Intech Boulevard, Suite 250
Indianapolis, IN 46278

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period January 1, 2012 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 Indiana Connections Academy, Inc., as of June 30, 2012, 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 Connections Academy, 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.

State Board of Accounts

INDIANA CONNECTIONS ACADEMY, INC.

Financial Statements

June 30, 2012

INDIANA CONNECTIONS ACADEMY, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Indiana Connections Academy, Inc.

We have audited the accompanying statement of financial position of **Indiana Connections Academy, Inc.** as of June 30, 2012 and the related statements of activities and cash flows for the period from inception (January 1, 2012) to June 30, 2012. These financial statements are the responsibility of the organization's management. 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 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 audit provides 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 Indiana Connections Academy, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the period from inception (January 1, 2012) to June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.



Indianapolis, IN
September 17, 2013

INDIANA CONNECTIONS ACADEMY, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash	\$ 4,961
Accounts receivable:	
State tuition support	4,701,202
Grants	57,615
Other	166
Prepaid expense	7,859
Total current assets	<u>4,771,803</u>
	<u>\$ 4,771,803</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Due to Connections Academy of Indiana, LLC	\$ 4,517,045
Other accounts payable and accrued expenses	252,438
Total current liabilities	<u>4,769,483</u>
Unrestricted net assets	<u>2,320</u>
	<u>\$ 4,771,803</u>

See accompanying notes to financial statements.

INDIANA CONNECTIONS ACADEMY, INC.

Statement of Activities

	Period from January 1, 2012 to June 30, 2012
<u>Revenue, Gains and Support</u>	
State education support	\$ 4,701,202
Grant revenue	106,018
Contributions	329
Total revenue, gains and support	<u>4,807,549</u>
<u>Expenses</u>	
Program services:	
Educational instruction	4,097,153
Education support	150,000
Administrative	558,076
Total expenses	<u>4,805,229</u>
Increase in net assets	2,320
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u>\$ 2,320</u>

See accompanying notes to financial statements.

INDIANA CONNECTIONS ACADEMY, INC.

Statement of Cash Flows

	Period from January 1, 2012 to June 30, 2012
<u>Operating Activities</u>	
Change in net assets	\$ 2,320
Adjustments to reconcile change in net assets to net cash from operating activities:	
Change in:	
Accounts receivable	(4,758,983)
Prepaid expense	(7,859)
Due to Connections Academy of Indiana, LLC	4,517,045
Other accounts payable and accrued expenses	252,438
Net cash provided by operating activities	<u>4,961</u>
Net increase in cash	4,961
Cash, beginning of year	<u>-</u>
Cash, end of year	<u>\$ 4,961</u>

See accompanying notes to financial statements.

INDIANA CONNECTIONS ACADEMY, INC.

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

General

Indiana Connections Academy, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a virtual public charter school established under Indiana Code 20-24 and sponsored by Ball State University. The School, which previously operated as a pilot program established by Rural Community Schools, Inc., commenced operations as a separate entity as of January 1, 2012.

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 as determined annually by the Indiana State Legislature. 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 to which the payments pertain.

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.

INDIANA CONNECTIONS ACADEMY, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

Indiana Connections 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 School would be subject to tax on income unrelated to its tax-exempt purpose. For the period ended June 30, 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional 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.

Subsequent Events

The School evaluated subsequent events through June 3, 2012, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

(2) Accounts Receivable

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

Tuition support	\$4,188,830
Special education grant	<u>512,372</u>
	<u>\$4,701,202</u>

INDIANA CONNECTIONS ACADEMY, INC.

Notes to Financial Statements

(2) Accounts Receivable, Continued

Tuition support is determined by state law and is indexed to the poverty data of the enrolled students. The payment schedule is also determined by state law with tuition payable in equal monthly installments by the State of Indiana in the calendar year following the start of the school year. The payment streams will cease upon revocation or termination of the charter.

(3) Leases

The School leases its operating facilities as well as certain items of office equipment under operating leases for terms from three to four years. Expense under operating leases for the six month period ended June 30, 2012 was \$51,395. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

<u>Year Ending June 30:</u>	
2013	\$103,370
2014	104,928
2015	28,271
2016	445

(4) Retirement Plans

School personnel are eligible to participate in a 401(k) retirement plan sponsored by Connections Education, LLC. Under the plan, the School will match 100% of employee contributions up to 3% of compensation and 50% of employee contributions for the next 3% of compensation. The School may also make additional discretionary contributions. No discretionary contributions were made in 2012. Retirement plan expense for the six month period ended June 30, 2012 was \$6,812.

INDIANA CONNECTIONS ACADEMY, INC.

Notes to Financial Statements

(5) 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. Expense under this charter agreement was \$125,856 for the six month period ended June 30, 2012. The charter remains in effect until June 30, 2016, and is renewable thereafter by mutual consent.

The School has contracted with Connections Academy of Indiana, LLC to provide instructional materials and services as well as administrative and technology services. As compensation for these services, the School negotiates a schedule of fees for services for each year of the term of agreement, which remains in effect until June 30, 2016. Such fees for the six month period ended June 30, 2012 were as follows:

Enrollment/unit based fees	\$2,532,728
Revenue based fees	<u>1,037,372</u>
	3,570,100
Less: discretionary fee reduction.....	<u>(702,300)</u>
	<u>\$2,867,800</u>

(6) Risks and Uncertainties

The School provides educational instruction services in a virtual school environment 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 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 may result in additional liability to be imposed on the School.

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.

INDIANA CONNECTIONS ACADEMY, INC.

Notes to Financial Statements

(7) 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/or service for the six month period ended June 30, 2012:

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Admini- strative</u>
Salaries and wages.....	\$ 995,003	-	237,814
Employee benefits	260,356	-	64,210
Professional services	33,131	-	6,825
Staff development and recruitment	13,521	-	1,509
Authorizer oversight fee	-	-	125,856
Management fees.....	544,462	328	37,970
Travel.....	24,939	-	-
Technology.....	621,141	-	-
Equipment rental	-	-	3,800
Classroom and office supplies and materials	1,450,172	-	63,776
Testing.....	107,274	-	-
Occupancy	47,154	-	-
Repairs and maintenance.....	-	143,315	-
Insurance	-	-	4,352
Other.....	-	<u>6,357</u>	<u>11,964</u>
	<u>\$4,097,153</u>	<u>150,000</u>	<u>558,076</u>

INDIANA CONNECTIONS ACADEMY, INC.

Other Reports

Year Ended June 30, 2012

The reports presented herein were prepared in addition to another official report prepared for the school as listed below:

Supplemental Audit Report of Indiana Connections Academy, 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*.