BALL STATE
UNIVERSITY

# 2016-17
# Office of Charter Schools

BALL STATE
UNIVERSITY

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# LETTER FROM THE INTERIM DEAN

BSU Office of Charter Schools

Nationally, public charter schools continue to grow at a rapid pace. In the 2016-17 school year, more than 6,900 charter schools were in operation, serving an estimated 3.1 million students in 42 states and the District of Columbia. These numbers reflected an increase in student population of 14.8% and an increase in the number of schools of seven percent over the preceding year.

Ball State University serves as the largest University authorizer of public charter schools in Indiana, with 28 schools throughout the state serving 17,501 students during 2016-17. While still operating 28 schools, this was a decrease from the number of students served during the 2015-16 school year. For the 2017-18 school year Ball State will authorize 28 schools serving approximately 16,149 children.

Since the passage of the Indiana charter law in 2001, BSU has been committed to ongoing growth and development of high quality charter schools and has established rigorous standards to ensure that the schools authorized are held accountable in providing excellent educational experiences for students they serve.

Ball State University's Office of Charter Schools continues its work to become a model for how an authorizer can drastically improve its policies and practices -- and consequently the strength of the schools in its portfolio. As the largest authorizer in Indiana for over a decade, Ball State worked with the National Association of Charter School Authorizers (NACSA) to improve its practices across the board.

Emphasis on improving student achievement is central to the Office of Charter Schools' (OCS) mission. Monitoring of student progress in Ball State-authorized charter schools is conducted on an annual basis. Growth model data for Spring 2017 shows that 91.7% of BSU-authorized schools demonstrated typical or high growth in English/Language Arts and 63.0% demonstrated typical or high growth in Math. Progress on the ISTEP+ and achievement growth data obtained from the required Northwest Evaluation Association (NWEA) for all schools is carefully assessed annually and serves as an important indicator of quality.

Leading statewide P-12 education reform and enhancing the role and impact of Ball State Office of Charter Schools is a commitment stated in the University's *18 by '18 Centennial Commitment*. To this end, additional mechanisms and strategies for assisting and supporting its charters to aggressively improve student academic performance are being considered and implemented toward the goal of increasing the percentage of Ball State-authorized charters that meet performance standards.

As parents and communities continue to call for high-quality educational options, Ball State University remains committed to meeting their needs, as do the many dedicated charter school administrators, teachers, staff and volunteers who serve on school boards, assist in the classrooms, and otherwise advance these public schools on behalf of their students.

Sincerely,

Roy Weaver, Interim Dean, Teachers College

# Accountability Report Content

BSU Office of Charter Schools



The Ball State University Office of Charter Schools is pleased to provide this Accountability Report along with additional information regarding data summarized in this report online: www.bsu.edu/teachers/charter

# PURPOSE OF THE ACCOUNTABILITY REPORT

of BSU Charter Schools

Each year, the Ball State University Office of Charter Schools (OCS) publishes an accountability report indicating the performance of its authorized charter schools. This is the thirteenth annual accountability report.

The purpose of this report is to provide a performance snapshot of each charter school authorized by Ball State that operated during 2016-17, as well as a general summary of the success of the Ball State charter program. The accountability report provides information about each school's educational philosophy and approach; demographics of the school's student population; 2016-17 state student achievement data in the form of ISTEP+, IREAD, ISTEP+ Grade 10 and graduation rates, as well as data from the Northwest Evaluation Association (NWEA) Measure of Academic Progress results.

This report summarizes the performance of each school for the academic year 2016-17, and, when applicable, goes back five years in operation. School performance data is obtained from the state assessment program, and the ISTEP+ assessment. The Indiana Department of Education reports test results only at the school level by grade. Because individual student performance has not been made available to OCS, the office is presently unable to track individual student progress for the ISTEP+ assessment. Without individual student performance on the ISTEP+, specific gains of those individual students from year-to-year cannot be tracked.

However, using Indiana's growth model data does provide some insight into the progress of students within BSU-authorized charter schools. Growth model data for Spring 2017 shows that 91.7% percent of BSU-authorized schools demonstrated typical or high growth in English/Language Arts and 63.0% percent demonstrated typical or high growth in Math. OCS recognizes that focusing on standardized test passing rates alone does not take into account such factors as the movement of individual students into and out of schools. This student mobility is significant for some of the Ball State-authorized schools, thereby masking performance gains of students who remain at a school for a number of years. Ideally, for accuracy, the performance of a school should be based on the impact of its educational program on the same students over a reasonable period of time.

The NWEA Measures of Academic Progress has been used not only as an accountability tool, but also as a means for identifying individual students' areas of needed improvement. The percentages of students achieving their NWEA target growth rate are included here to provide another indicator of student performance, but this should not be considered a complete evaluation of the school's success in achieving growth among students.

# OVERVIEW

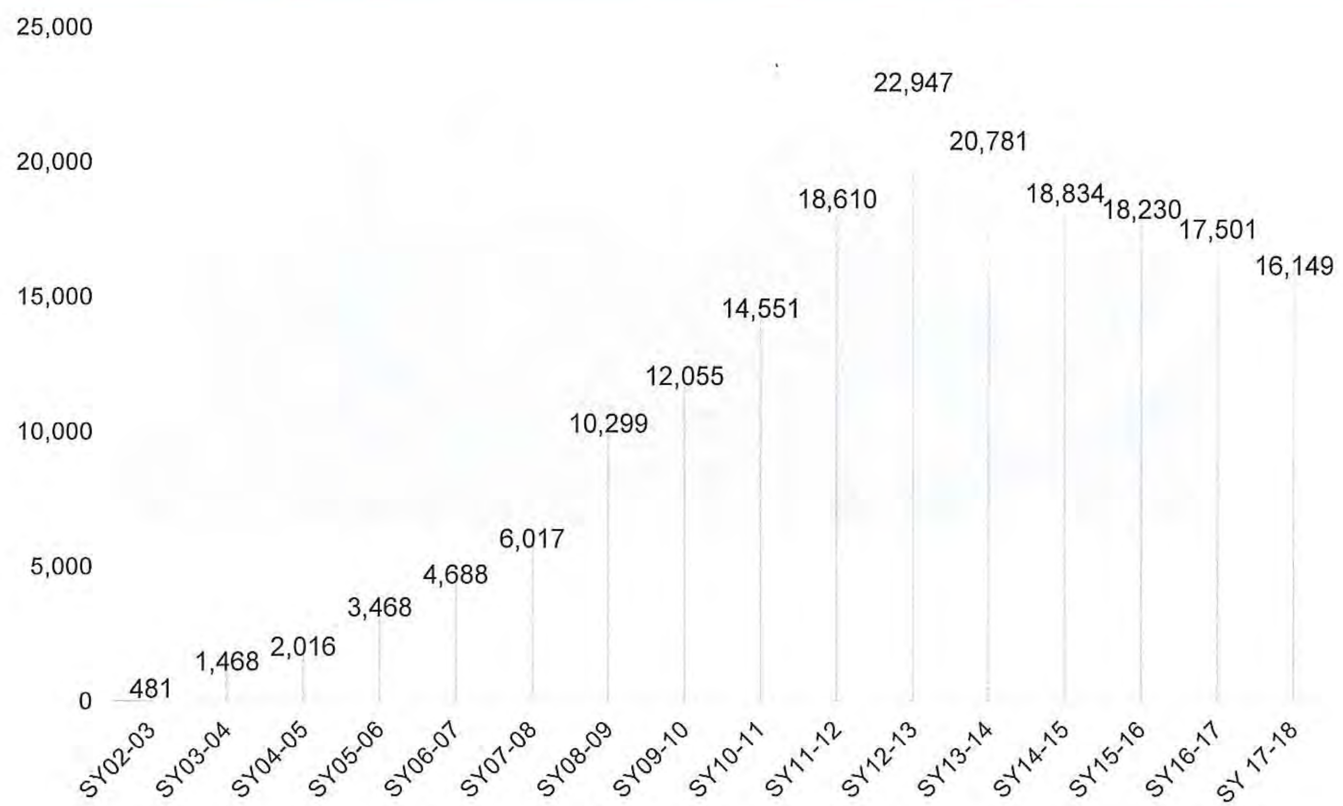
of BSU Charter Schools

## What are Charter Schools?

Charter schools are independent, state-funded, public schools that are open to all students. Students do not pay tuition to attend these schools, which are designed and operated by educators, parents, and community leaders. In Indiana, charter schools may be authorized by a limited number of entities, such as the executive of a consolidated city or a state, public and private universities offering four-year degrees, and a state-wide authorizing board. Ball State has served as an authorizer since 2002.

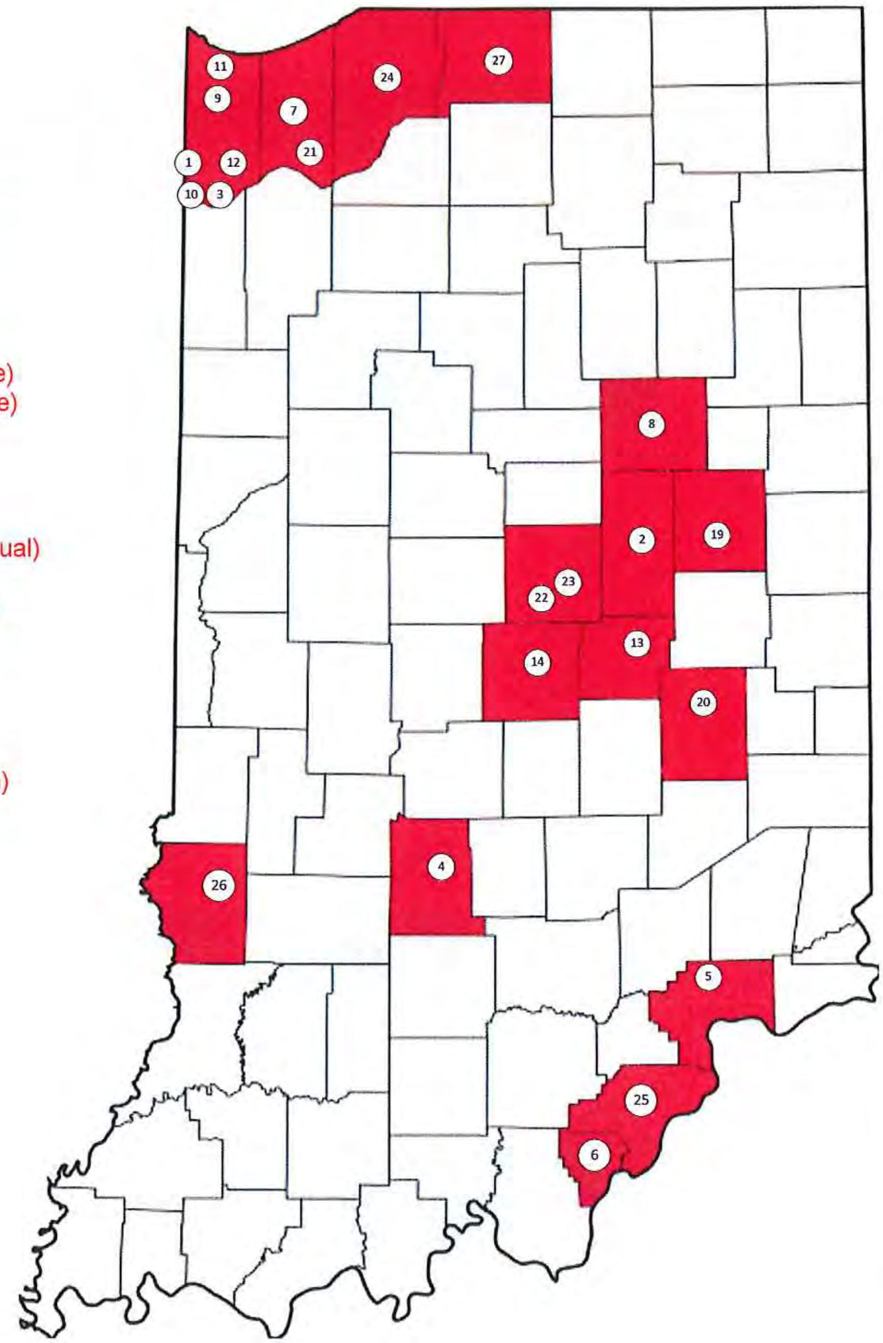
Through these schools, Ball State University helps expand the educational choices available to Indiana students. Each school authorized by the University Similar to public schools, charter schools are held to high academic standards. Each Ball State-sponsored charter school is required to fulfill the conditions set forth in its charter, as well as to achieve the performance standards set forth in Ball State's Performance Frameworks, which serve as the accountability plan for all schools sponsored by Ball State. Charter schools must participate in state testing programs, provide open enrollment to all students, hire certified teachers, publish annual reports, and comply with Indiana Access Laws. The educational programs offered in charter schools are often new and innovative approaches to instruction that can be tailored to the specific needs of students. Charter schools are allowed considerable autonomy through the Indiana Charter Law. In exchange for that autonomy, each school is held to a high level of accountability.

## Enrollment History of Ball State University Authorized Charter Schools (2017)



# MAP OF BALL STATE CHARTER SCHOOLS

1. 21st Century Charter School at Gary 2005 (Lake)
2. Anderson Preparatory Academy 2008 (Madison)
3. Aspire Charter Academy 2008 (Lake)
4. The Bloomington Project School 2009 (Monroe)
5. Canaan Community Academy 2012 (Jefferson)
6. Community Montessori 2002 (Floyd)
7. Discovery Charter School 2010 (Porter)
8. Dr. Robert H. Faulkner Academy 2008 (Grant)
9. East Chicago Lighthouse Charter School 2006 (Lake)
10. East Chicago Urban Enterprise Academy 2005 (Lake)
11. Gary Lighthouse Charter School 2005 (Lake)
12. Gary Middle College 2012 (Lake)
13. Geist Montessori Academy 2006 (Hancock)
14. Hoosier Academy - Indianapolis 2008 (Marion)
15. Hoosier Academies Virtual Charter School 2012 (Virtual)
16. Indiana Connections Academy 2012 (Virtual)
17. Indiana Connections Career Academy 2017 (Virtual)
18. Insight School of Indiana 2016 (Virtual)
19. Inspire Academy 2013 (Delaware)
20. Mays Community Academy 2015 (Rush)
21. Neighbor's New Vista High School 2012 (Porter)
22. Options Charter School – Carmel 2004 (Hamilton)
23. Options Charter School - Noblesville 2006 (Hamilton)
24. Renaissance Academy 2007 (La Porte)
25. Rock Creek Community Academy 2010 (Clark)
26. Rural Community Academy 2004 (Sullivan)
27. Xavier School of Excellence 2009 (St. Joseph)



# DIVERSITY OF BSU CHARTER SCHOOLS

Ball State is a leader in the development and promotion of educational innovations and best practices for public schools in Indiana. Serving as Indiana's first postsecondary institution authorizing public charter schools was one way the Ball State University demonstrated its commitment to redefining education and building better communities. Ball State University remains the largest postsecondary institution authorizer in the state. The chart below demonstrates the diversity found in BSU charter schools as compared to traditional public schools in the state of Indiana.

## School Type Comparisons

| 2016-17 | Traditional Public Schools | | BSU Authorized Charter Schools | | |
|---|---|---|---|---|---|
| Enrollment | 1,133,380 | | 17,501 | | |
| Ethnicity | Number | Percent | Number | Percent | Range |
| Black | 4,881 | 12.1% | 4,881 | 28% | 0-96.8% |
| White | 9,997 | 69.0% | 9,997 | 57% | 0.3-95.6% |
| Hispanic | 1,587 | 11.5% | 1,587 | 9.1% | 1.1-56.6% |
| Multiracial | 860 | 4.8% | 860 | 4.9% | 1.4-22.2% |
| Asian | 141 | 2.3% | 141 | 0.1% | 0-2.9% |
| American Indian | 40 | 0.2% | 40 | >0.0% | 0-1.8% |
| Native Hawaiian/Pacific Island or Other | 12 | 0.1% | 12 | >0.0% | 0-0.8% |
| Lunch (Free/Reduced/Paid) | | | | | |
| Free | 432,677 | 38.2% | 8,423 | 48.3% | 4-100% |
| Reduced | 85,564 | 7.5% | 1,336 | 7.6% | 0-16.2% |
| Paid | 615,139 | 54.3% | 7,569 | 43.2% | 0-92.6% |
| Special Education | 164,706 | 14.5% | 2,672 | 15.3% | *7.9-40.50%* |
| English Language Learner | 50,667 | 4.5% | 291 | .02% | *0-17%* |

# 2016-17 Student Enrollment

of BSU Charter Schools

| School Name | Enrollment | Attendance Rate | Mobility | # of Students Suspensions | # of Students Expelled | # of students Absent 10% or more, for any reason | % of students with Chronic Absenteeism |
|---|---|---|---|---|---|---|---|
| 21st Century Charter School at Gary | 896 | 96% | 11.1% | 237 | 5 | 49 | 5.47% |
| Anderson Preparatory Academy | 812 | 95.2% | 11.8% | 192 | 6 | 77 | 9.48% |
| Aspire Charter Academy | 707 | 92.8% | 14.9% | 79 | 1 | 135 | 19.09% |
| The Bloomington Project School | 278 | 95.2% | 5.2% | 5 | 0 | 35 | 12.59% |
| Canaan Community Academy | 87 | 94.9% | 22% | 3 | 0 | 8 | 9.20% |
| Community Montessori Inc | 541 | 95.9% | 3.4% | 20 | 0 | 25 | 4.62% |
| Discovery Charter School | 515 | 95.3% | 3.6% | 17 | 5 | 33 | 6.41% |
| Dr Robert H Faulkner Academy | 120 | 96.0% | 14.8% | 0 | 0 | 9 | 7.50% |
| East Chicago Lighthouse Charter School | 450 | 93.1% | 19% | 0 | 0 | 84 | 18.67% |
| East Chicago Urban Enterprise Academy | 433 | 94.3% | 7% | 58 | 0 | 64 | 14.78% |
| Gary Lighthouse Charter School | 1507 | 94.3% | 13.8% | 124 | 0 | 201 | 13.34% |
| Gary Middle College | 237 | 60.8% | 17.7% | 27 | 0 | 241 | 101.69% |
| Geist Montessori Academy | 379 | 95.2% | 10.6% | 12 | 0 | 25 | 6.60% |
| Hoosier Academy – Indianapolis (Virtual School) | 3367 | 95.4% | 36% | n/a | 462 | 644 | 19.13% |
| Hoosier Academy – Indianapolis | 247 | 97.7% | 36.2% | 18 | 0 | 6 | 2.43% |
| Indiana Connections Academy | 4028 | 89.6% | 40.7% | 307 | 135 | 1345 | 33.39% |
| Insight School of Indiana | 651 | 94.4% | 44.0% | n/a | 180 | 106 | 16.28% |
| Inspire Academy | 176 | 95.1% | 0% | 22 | 0 | 11 | 6.25% |
| Mays Community Academy | 174 | 94.3% | 27.3% | 9 | n/a | 19 | 10.92% |
| Neighbors' New Vistas High School | 230 | 82.1% | 34.3% | 68 | 2 | 170 | 73.91% |
| Options Charter School - Carmel | 175 | 99.2% | 34.6% | 14 | 4 | 3 | 1.71% |
| Options Charter School - Noblesville | 200 | 95.8% | 33.7% | 21 | 0 | 32 | 16.00% |
| Renaissance Academy Charter School | 246 | 97.2% | 7.1% | 3 | 0 | 4 | 1.63% |
| Rock Creek Community Academy | 507 | 95.9% | 8.9% | 37 | 3 | 33 | 6.51% |
| Rural Community Academy | 166 | 99.0% | 11.7% | 11 | 0 | 0 | 0.00% |
| Xavier School of Excellence | 215 | 93.3% | 24.5% | 49 | 1 | 37 | 17.21% |

# 2016-17 Incidents of Seclusion or Restraints

of BSU Charter Schools

| School Name | # Chemical Restraints | # Mechanical Restraints | # Physical Restraints | Total Restraints | # Restraints Involving a Resource Office | # Seclusions | # Seclusions Involving a Resource Office |
|---|---|---|---|---|---|---|---|
| 21st Century Charter School at Gary | 0 | 0 | 10 | 10 | 7 | 3 | 2 |
| Anderson Preparatory Academy | 0 | 0 | 4 | 4 | 0 | 0 | 0 |
| Aspire Charter Academy | 0 | 0 | 4 | 4 | 0 | 1 | 0 |
| The Bloomington Project School | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| Canaan Community Academy | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Community Montessori Inc | 0 | 0 | 5 | 5 | 0 | 0 | 0 |
| Discovery Charter School | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dr Robert H Faulkner Academy | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| East Chicago Lighthouse Charter School | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| East Chicago Urban Enterprise Academy | 0 | 0 | 12 | 12 | 0 | 12 | 0 |
| Gary Lighthouse Charter School | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| Gary Middle College | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| Geist Montessori Academy | 0 | 0 | 10 | 10 | 0 | 0 | 0 |
| Hoosier Academies Virtual Charter School | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hoosier Academy – Indianapolis | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Indiana Connections Academy | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Insight School of Indiana | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inspire Academy | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Mays Community Academy | 0 | 0 | 3 | 3 | 0 | 18 | 0 |
| Neighbors' New Vistas High School | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options Charter School - Carmel | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options Charter School - Noblesville | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| Renaissance Academy Charter School | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rock Creek Community Academy | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rural Community Academy | 0 | 0 | 15 | 15 | 0 | 20 | 0 |
| Xavier School of Excellence | * | * | * | * | * | * | * |

* Unable to obtain this data from school.

# INDIANA'S STATE ACCOUNTABILITY SYSTEM

Ball State University Authorized Charter Schools 2017 PL221 Status

Beginning with the 2011-12 school year, new metrics were used to assign category designations (letter grades) to schools. These new A-F grades were designed to improve transparency by allowing parents and community members to better recognize how well Indiana schools are performing. The A-F model measures proficiency and growth on state assessments, and includes college and career readiness performance indicators for high schools. A more detailed explanation of how the A-F grade is calculated for schools can be found on the IDOE website. http://www.doe.in.gov/accountability/f-accountability

Additionally, a detailed breakdown for each school is provided on their school's COMPASS profile, in the report card under the Accountability Tab. http://compass.doe.in.gov/

| SCHOOL NAME | 2016-17 | 2015-16 | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|---|---|---|---|---|---|---|---|---|
| 21st Century Charter School at Gary | D | C | D | D | D | | A | A |
| Anderson Preparatory Academy | C | C | A | A | D | D | D | B |
| Aspire Charter Academy | F | D | D | D | D | C | C | F |
| The Bloomington Project School | B | A | A | A | A | C | C | F |
| Canaan Community Academy | C | C | * | * | A | Not open | Not open | Not open |
| Community Montessori | C | C | D | D | D | D | C | F |
| Discovery Charter School | B | B | A | A | A | A | B | Not open |
| Dr Robert H Faulkner Academy | A | A | B | B | A | C | A | A |
| East Chicago Lighthouse | D | F | D | D | F | D | C | C |
| East Chicago Urban Enterprise Academy | D | D | A | A | C | D | F | C |
| Gary Lighthouse Charter School | C | C | D | D | F | F | F | C |
| Gary Middle College | F | F | ** | ** | ** | Not open | Not open | Not open |
| Geist Montessori Academy | C | B | A | A | C | A | A | A |
| Hoosier Academy - Indianapolis Virtual School | F | F | F | F | F | F | F | C |
| Hoosier Academy - Indianapolis | D | F | C | C | C | B | D | C |
| Indiana Connections Academy | F | F | D | D | D | D | B | |
| Inspire Academy | D | C | D | D | Not open | Not open | Not open | Not open |
| Mays Community Academy | B | No Grade | Not open | Not open | Not open | Not open | Not open | Not open |
| Neighbors' New Vistas High School | F | F | ** | ** | ** | Not open | Not open | Not open |
| Options Charter School - Carmel | F | D | D | F | F | F | C | F |
| Options Charter School Noblesville | F | F | D | F | F | F | F | F |
| Renaissance Academy Charter School | B | B | A | A | A | A | B | A |
| Rock Creek Community Academy | B | B | A | A | B | C | D | |
| Rural Community Academy | C | C | B | B | A | B | A | A |
| Veritas Academy | F | C | A | A | D | A | C | C |
| Xavier School of Excellence | F | D | D | F | F | C | C | A |

* Canaan Community Academy does not have an A-F grade in 2013-14 and 2014-15 due to invalidation of its 2013-14 ISTEP tests

** Gary Middle College and Neighbors' New Vistas High School did not get an A-F grade 2016 because their student population was too small.

# INDIANA'S STATE ACCOUNTABILITY SYSTEM

BSU Authorized Charter Schools 2017 ISTEP Results

| Corporation Name | ELA Percent Pass | ELA Median Growth | ELA Growth Category | Math Percent Pass | Math Median Growth | Math Growth Category | 2014-15 Pass Both Math and ELA Percent |
|---|---|---|---|---|---|---|---|
| 21st Century Charter School at Gary | 37.1% | 43.0 | Typical | 23.3% | 36.5 | Typical | 18.2% |
| Anderson Preparatory Academy | 47.4% | 47.0 | Typical | 45.5% | 37.0 | Typical | 32.3% |
| Aspire Charter Academy | 42.4% | 45.0 | Typical | 31.4% | 30.0 | Low | 23.4% |
| The Bloomington Project School | 80.0% | 54.0 | Typical | 73.8% | 53.0 | Typical | 68.2% |
| Canaan Community Academy | 47.6% | 66.0 | High | 36.6% | 67.0 | High | 26.8% |
| Community Montessori Inc | 61.5% | 69.0 | High | 29.7% | 49.0 | Typical | 26.6% |
| Discovery Charter School | 77.6% | 49.0 | Typical | 72.9% | 38.0 | Typical | 65.9% |
| Dr Robert H Faulkner Academy | 82.7% | 57.0 | Typical | 68.5% | 37.0 | Typical | 61.5% |
| East Chicago Lighthouse Charter School | 36.3% | 51.0 | Typical | 25.5% | 45.0 | Typical | 20.0% |
| East Chicago Urban Enterprise Academy | 49.6% | 50.5 | Typical | 36.8% | 35.0 | Typical | 29.1% |
| Gary Lighthouse Charter School | 34.2% | 43.0 | Typical | 28.2% | 54.0 | Typical | 21.0% |
| Geist Montessori Academy | 68.4% | 58.5 | Typical | 45.5% | 45.0 | Typical | 42.9% |
| Hoosier Academies Indianapolis Virtual School | 45.8% | 39.0 | Typical | 26.8% | 21.0 | Low | 24.1% |
| Hoosier Academy – Indianapolis | 61.9% | 55.5 | Typical | 45.4% | 41.5 | Typical | 39.2% |
| Indiana Connections Academy | 58.3% | 43.0 | Typical | 34.0% | 25.0 | Low | 31.4% |
| Insight School of Indiana | 25.3% | 33.0 | Low | 4.6% | 14.0 | Low | 3.4% |
| Inspire Academy | 43.8% | 54.0 | Typical | 27.5% | 39.0 | Typical | 22.5% |
| Mays Community Academy | 57.9% | 34.5 | Low | 45.3% | 20.5 | Low | 36.8% |
| Options Charter School – Noblesville | 29.4% | 30.5 | Low | 11.8% | 30.5 | Low | 12.5% |
| Renaissance Academy Charter School | 77.6% | 54.0 | Typical | 57.0% | 51.5 | Typical | 53.0% |
| Rock Creek Community Academy | 64.8% | 55.0 | Typical | 60.2% | 62.0 | Typical | 52.9% |
| Rural Community Schools Inc | 58.4% | 44.0 | Typical | 50.0% | 37.0 | Typical | 42.6% |
| Veritas Academy | 42.1% | 35.0 | Typical | 29.8% | 27.0 | Low | 22.8% |
| Xavier School of Excellence | 30.3% | 39.0 | Typical | 7.4% | 23.0 | Low | 5.6% |

# INDIANA'S STATE ACCOUNTABILITY SYSTEM

## BSU Authorized Charter Schools 2017 IREAD Results*

Like all public schools, charter schools are required to administer the Indiana Reading Evaluation and Determination (IREAD-3) assessment. The purpose of the IREAD-3 assessment is to measure foundational reading standards developed through grade three. Statewide 2017 Spring IREAD-3 results show that overall, 89.5% of Indiana public school students passed the IREAD assessment in 2016-17. Students who do not pass the spring assessment are retested in the summer. A school's final IREAD score is updated following the summer retest. Students who do not pass the summer retest, may be retained in third grade.

| | Spring 2016-17 | | | Summer 2016-17 | | |
|---|---|---|---|---|---|---|
| Corporation Name | IREAD TEST N | IREAD PASS N | IREAD Pass % | IREAD TEST N | IREAD PASS N | IREAD Pass % |
| 21st Century Charter School at Gary | 76 | 42 | 55.26% | 64 | 51 | 79.70% |
| Anderson Preparatory Academy | 55 | 40 | 72.73% | 51 | 41 | 80.40% |
| Aspire Charter Academy | 78 | 65 | 83.33% | 74 | 65 | 87.80% |
| The Bloomington Project School | 26 | 25 | 96.15% | 26 | 25 | 96.20% |
| Canaan Community Academy | 17 | 13 | 76.47% | 17 | 15 | 88.20% |
| Community Montessori Inc | 40 | 32 | 80.00% | 37 | 31 | 83.80% |
| Discovery Charter School | 71 | 67 | 94.37% | 72 | 70 | 97.20% |
| Dr Robert H Faulkner Academy | 22 | 21 | 95.45% | 21 | 21 | 100.00% |
| East Chicago Lighthouse Charter School | 49 | 28 | 57.14% | 45 | 30 | 66.70% |
| East Chicago Urban Enterprise Academy | 47 | 27 | 57.45% | 44 | 37 | 84.10% |
| Gary Lighthouse Charter School | 84 | 64 | 76.19% | 86 | 65 | 75.60% |
| Geist Montessori Academy | 43 | 32 | 74.42% | 44 | 34 | 77.30% |
| Hoosier Academies Indianapolis Virtual School | 187 | 115 | 61.50% | 170 | 116 | 68.20% |
| Hoosier Academy – Indianapolis | 17 | 12 | 70.59% | 13 | 10 | 76.90% |
| Indiana Connections Academy | 110 | 93 | 84.55% | 111 | 91 | 82.00% |
| Inspire Academy | 21 | 10 | 47.62% | 21 | 17 | 81.00% |
| Mays Community Academy | 37 | 29 | 78.38% | 38 | 36 | 94.70% |
| Renaissance Academy Charter School | 29 | 28 | 96.55% | 30 | 29 | 96.70% |
| Rock Creek Community Academy | 34 | 31 | 91.18% | 34 | 31 | 91.20% |
| Rural Community Schools Inc | 23 | 23 | 100.00% | 23 | 23 | 100.00% |
| Veritas Academy | 9 | 4 | 44.44% | data not available-school closed 6/30/17 | | |
| Xavier School of Excellence | 18 | 6 | 33.33% | data has been suppressed | | |

# ISTEP+ GRADE 10 AND GRADUATION RATES

BSU Authorized Charter Schools 2017

## 2017 ISTEP+ Grade 10

Beginning in 2016-2017, the ISTEP+ Grade 10 English/Language Arts and Mathematics tests replace the End of Course Assessments in Algebra I and English 10 as the graduation requirement for the class of 2019 and 2020. Every Indiana student in the graduating class of 2019 and beyond must demonstrate mastery of the Indiana Academic Standards measured by the ISTEP+ Grade 10 English/Language Arts and Mathematics assessments. The ISTEP+ Grade 10 Math Assessment is based on standards adopted in 2014; the Grade 10 English Assessment is based on standards adopted in 2014.

| School Name | 2016-17 % Pass Both ELA and Math | 2016-17 % Pass ELA | 2016-17 % Pass Math |
|---|---|---|---|
| 21st Century Charter School at Gary | 5.6% | 38.9% | 6.8% |
| Anderson Preparatory Academy | 35.6% | 55.4% | 41.9% |
| Community Montessori | 23.1% | 66.7% | 27.3% |
| Gary Lighthouse Charter School | 9.9% | 29.8% | 10.6% |
| Gary Middle College | Data has been suppressed | Data has been suppressed | Data has been suppressed |
| Hoosier Academy – Indianapolis Virtual School | 11.6% | 44.1% | 12.1% |
| Hoosier Academy - Indianapolis | Data has been suppressed | Data has been suppressed | Data has been suppressed |
| Indiana Connections Academy | 15.1% | 55.4% | 16.0% |
| Insight School of Indiana | 1.8% | 22.4% | 1.8% |
| Neighbors' New Vistas High School | 0% | 3.8% | 0% |
| Options Charter School - Carmel | 0% | 17.4% | 0% |
| Options Charter School Noblesville | 10.0% | 40.0% | 10.0% |
| Rock Creek Community Academy | 44.1% | 65.7% | 47.1% |
| **Indiana Statewide** | **33.5%** | **60.5%** | **36.80%** |

## 2017 GRADUATION RATES

State law (IC 20-26-13) indicates that the graduation rate is the percentage of students within a cohort who graduate during their expected graduation year. The expected graduation year is defined as three years after a student is first considered to have entered grade 9.

The non-waiver rate excludes those graduates who received a diploma with a waiver and have not met the basic expectation that all students pass the state's ECA Graduation Examinations before exiting high school with a diploma. Students can receive graduation waivers in three ways: 1) by successfully completing Core 40 coursework; 2) by demonstrating to the satisfaction of the high school that they have met the achievement standard measured by the Graduation Examination through other means; or, 3) by completing an internship and a workforce readiness assessment.

| School Name | 2017 In Cohort N | 2017 Total Graduate N | 2017 Total Graduation Rate | 2017 Non-Waiver Graduate N | 2017 Non-Waiver Graduation Rate | 2017 Waiver Graduate N | 2017 Waiver Graduation Rate |
|---|---|---|---|---|---|---|---|
| 21st Century Charter School at Gary | 46 | 41 | 89.13% | 34 | 73.91% | 7 | 17.10% |
| Anderson Preparatory Academy | 52 | 47 | 90.38% | 42 | 80.77% | 5 | 10.60% |
| Community Montessori | 41 | 41 | 100.00% | 30 | 73.17% | 11 | 26.80% |
| Gary Lighthouse Charter School | 114 | 112 | 98.25% | 89 | 78.07% | 23 | 20.50% |
| Gary Middle College | 96 | 38 | 39.58% | 32 | 33.33% | 6 | 15.80% |
| Hoosier Academy Virtual Charter School | 506 | 118 | 23.32% | 95 | 18.77% | 23 | 19.50% |
| Hoosier Academy - Indianapolis | 19 | 13 | 68.42% | 10 | 52.63% | 3 | 23.10% |
| Indiana Connections Academy | 859 | 425 | 49.48% | 352 | 40.98% | 73 | 17.20% |
| Neighbors' New Vistas High School | 93 | 24 | 25.81% | 24 | 25.81% | 0 | 0 |
| Options Charter School - Carmel | 64 | 28 | 43.75% | 23 | 35.94% | 5 | 17.90% |
| Options Charter School Noblesville | 66 | 30 | 45.45% | 27 | 40.91% | 3 | 10.00% |
| Rock Creek Community Academy | 39 | 38 | 97.44% | 34 | 87.18% | 4 | 10.50% |

* Due to federal privacy laws, student performance data may not be displayed for any group of fewer than 10 students.

# Diploma Types and Drop Out Data

BSU Authorized Charter Schools 2017

The Indiana General Assembly made completion of Core 40 a graduation requirement for all students beginning with those who entered high school in the fall of 2007. The legislation includes an opt-out provision for parents who determine their students could receive a greater benefit from the General Diploma. The legislation also made Core 40 a minimum college admission requirement for the state's public four-year universities beginning in the fall of 2011.

| | 2016-17 Diploma Quality | | | | | | 2016-17 Drop Out Data | |
|---|---|---|---|---|---|---|---|---|
| **School Name** | **Core %** | **Core #** | **Honors %** | **Honors #** | **General %** | **General #** | **Drop Out %** | **Drop Out #** |
| 21st Century Charter School at Gary | 87.8% | 36 | 12.2% | 5 | 0.0% | 0 | 2.2% | 1 |
| Anderson Preparatory Academy | 59.6% | 28 | 36.3% | 18 | 2.1% | 1 | 7.7% | 4 |
| Community Montessori | 51.2% | 21 | 36.6% | 15 | 12.2% | 5 | 0.0% | 0 |
| Gary Lighthouse Charter School | 78.6% | 88 | 17.9% | 20 | 3.6% | 4 | 0.9% | 1 |
| Gary Middle College | 100% | 38 | 0.0% | 0 | 0.0% | 0 | 50.0% | 48 |
| Hoosier Academy Virtual School | 78.0% | 92 | 11.9% | 14 | 10.2% | 12 | 64.4% | 326 |
| Hoosier Academy - Indianapolis | 76.9% | 10 | 23.1% | 3 | 0.0% | 0 | 21.1% | 4 |
| Indiana Connections Academy* | 83.5% | 355 | 6.8% | 29 | 9.6% | 41 | 28.8% | 247 |
| Neighbors' New Vistas High School | 83.3% | 20 | 0.0% | 0 | 16.7% | 4 | 24.7% | 23 |
| Options Charter School - Carmel | 60.7% | 17 | 0.0% | 0 | 39.3% | 11 | 3.1% | 2 |
| Options Charter School Noblesville | 73.3% | 22 | 3.3% | 1 | 23.3% | 7 | 10.6% | 7 |
| Rock Creek Community Academy | 55.3% | 21 | 44.7% | 17 | 0.0% | 0 | 0.0% | 0 |
| **Ball State Schools** | **78.3%** | **748** | **12.8%** | **122** | **8.9%** | **85** | **41.0%** | **663** |
| **State** | **49.8%** | **35,538** | **38.9%** | **27,753** | **11.30%** | **8,075** | **5.6%** | **4,584** |

## Northwest Evaluation Association (NWEA)

The Northwest Evaluation Association (NWEA), a nonprofit organization, has partnered with school corporations and educational agencies across the nation to provide comprehensive assessment since 1977. More than two million students in the United States participate in NWEA assessments each year; providing an ample body of reference data for achievement norms. With a variety of support services, resource materials, and in-depth training, NWEA is a leader in longitudinal research for student achievement and growth and school improvement. In keeping with the NWEA mission to help all students learn, the organization uses assessment data to provide instructional tools for educators. Test results are made available for immediate use, with detailed reports and interpretation of student performance. Each Ball State-authorized charter school has administered the Measure of Academic Progress (MAP) standardized test in the fall and the spring. Growth rates are determined by the change in scores from fall to spring. Target growth rates are individualized, based upon the average for comparison students in the normal group who received a similar score. The target rate for one student may not be the same as the target rate for another. The percentage of students meeting their target growth rate for each school includes only those students present for both the fall and spring testing. This is the eighth year in which NWEA assessments are part of the requirement for accountability reporting. This data provides another snapshot of student performance that is focused specifically on student growth.

# NWEA

Fall 2016 – Spring 2017

Note, in the below chart, 50% of students meeting their growth target would be typical growth on NWEA.

| School Name | % of Students meeting reading growth target | % of Students meeting language arts growth target | % of Students meeting math growth target |
|---|---|---|---|
| 21st Century Charter School at Gary | 54.7% | 56.6% | 64.8% |
| Anderson Preparatory Academy | 50.1% | 51.8% | 46.1% |
| Aspire Charter Academy | 58.7% | ** | 62.2% |
| The Bloomington Project School | 51.1% | 50.3% | 49.9% |
| Canaan Community Academy | 62.2% | ** | 62.8% |
| Community Montessori | 44.8% | 44.5% | 33.6% |
| Discovery Charter School | 57.1% | 59.6% | 53.0% |
| Dr Robert H Faulkner Academy | 36.6% | 30.0% | 36.8% |
| East Chicago Lighthouse Charter School | 43.8% | ** | 50.5% |
| East Chicago Urban Enterprise Academy | 48.1% | 51.6% | 55.4% |
| Gary Lighthouse Charter School | 44.8% | 25.0% | 55.0% |
| Gary Middle College | * | * | * |
| Geist Montessori Academy | 52.6% | 60.2% | 50.0% |
| Hoosier Academy - Indianapolis | 57.0% | ** | 63.3% |
| Hoosier Academies Virtual Charter School | 42.0% | *** | 52.4% |
| Indiana Connections Academy | * | * | * |
| Insight School of Indiana | 40.0% | ** | 45.0% |
| Inspire Academy | 38.8% | 49.3% | 35.0% |
| Mays Community Academy | 31.0% | 27.6% | 34.4% |
| Neighbors' New Vistas High School | * | * | * |
| Options Charter School - Carmel | ** | ** | ** |
| Options Charter School Noblesville | 74.0% | 77.0% | 43.0% |
| Renaissance Academy Charter School | 46.4% | 55.0% | 58.0% |
| Rock Creek Community Academy | 63.3% | 54.9% | 55.3% |
| Rural Community Academy | 59.3% | 60.3% | 56.1% |
| Xavier School of Excellence | 38.6% | 33.7% | 34.4% |

* Indiana Connections Academy, Gary Middle College and Neighbors' New Vistas High School do not administer the NWEA Assessment.

** Data not available.

# 2016-17 Minority Students, Free and Reduced Lunch and Special Ed Services

| School Name | % of Minority Students | Received Free Lunch | % Received Free Lunch | Received Reduced Lunch | % Reduced Lunch | % Identified for Special Ed Svcs |
|---|---|---|---|---|---|---|
| 21st Century Charter School at Gary | 37.3% | 730 | 82.20% | 35 | 4% | 11.80% |
| Anderson Preparatory Academy | 99.6% | 388 | 47.80% | 66 | 8.10% | 15.80% |
| Aspire Charter Academy | 22.7% | 597 | 85.90% | 50 | 7.20% | 10.60% |
| The Bloomington Project School | 10.1% | 69 | 24.80% | 17 | 6.10% | 24.80% |
| Canaan Community Academy | 11.6% | 43 | 48.30% | 7 | 7.90% | 40.40% |
| Community Montessori | 25.1% | 75 | 13.80% | 53 | 9.80% | 21.20% |
| Discovery Charter School | 63.4% | 79 | 15.30% | 38 | 7.30% | 12.90% |
| Dr Robert H Faulkner Academy | 99.1% | 29 | 24.20% | 7 | 5.80% | 10.00% |
| East Chicago Lighthouse Charter School | 99.5% | 440 | 100.00% | 0 | 0.00% | 10.90% |
| East Chicago Urban Enterprise Academy | 99.1% | 334 | 77.50% | 22 | 5.10% | 7.90% |
| Gary Lighthouse Charter School | 97.9% | 1514 | 99.90% | 0 | 0.00% | 10.30% |
| Gary Middle College | 23.3% | 231 | 97.50% | 0 | 0.00% | 8.40% |
| Geist Montessori Academy | 31.9% | 15 | 4.00% | 13 | 3.50% | 17.00% |
| Hoosier Academy - Indianapolis Virtual School | 23.1% | 1461 | 43.70% | 382 | 11.40% | 13.00% |
| Hoosier Academy - Indianapolis | 18.9% | 60 | 26.70% | 40 | 16.20% | 17.40% |
| Indiana Connections Academy | 24.0% | 1344 | 33.30% | 412 | 10.20% | 15.60% |
| Insight School of Indiana | 40.8% | 287 | 43.3 | 79 | 11.90% | 20.20% |
| Inspire Academy | 4.4% | 115 | 66.10% | 15 | 8.60% | 24.70% |
| Mays Community Academy | 53.0% | 92 | 51.10% | 28 | 15.60% | 21.70% |
| Neighbors' New Vistas High School | 29.5% | 122 | 50.20% | 13 | 5.30% | 14.80% |
| Options Charter School - Carmel | 25.5% | 23 | 13.10% | 7 | 4.00% | 22.20% |
| Options Charter School Noblesville | 22.3% | 40 | 19.60% | 10 | 4.90% | 33.30% |
| Renaissance Academy Charter School | 22.5% | 31 | 12.60% | 5 | 2.00% | 11.70% |
| Rock Creek Community Academy | 10.2% | 86 | 17.00% | 16 | 3.20% | 27.80% |
| Rural Community Academy | 88.8% | 85 | 50.60% | 15 | 8.90% | 40.50% |
| Veritas Academy | 85.9% | not available – school closed 6/30/2017 | | | | |
| Xavier School of Excellence | 37.3% | 133 | 62.10% | 6 | 2.80% | 17.20% |

# 2016-17 School Non-Renewals

During the 2016-17 school year, eight schools were scheduled to be up for renewal. One school, New Community Academy, closed effective December 31, 2016, prior to the expiration of its charter agreement, due to lack of financial resources to remain open. The remaining seven schools all requested renewal. Six schools - Canaan Community Academy, Community Montessori, Gary Lighthouse Charter School, Gary Middle College, Neighbors' New Vistas High School, and Renaissance Academy Charter School – all received 5-year renewal contracts. One school, Xavier School of Excellence received a one-year extension of its charter agreement.

The Executive Director of the Office of Charter Schools issues notice of the University's intent to renew or non-renew the Charter by January 15 last academic year before expiration of the then current term of the Charter. The Organizer may appeal the decision of the Executive Director not to renew the Organizer's charter. In such an event, following receipt and review of the Hearing Panel's recommendation, the President of the University shall issue final notice of the University's intent to renew or non-renew the Charter by March 1 of the same academic year.

# ACADEMIC, FINANCIAL AND ORGANIZATIONAL PERFORMANCE FRAMEWORKS

OCS has developed and adopted national principles and standards for quality charter school authorizing in accordance with IC 20-24-2.2-1.5. These standards are reflected in the Academic, Financial and Organizational Performance Frameworks which are the basis for school evaluation and are incorporated into the charter contract.

The Academic Performance Framework measures:

## Student Progress Over Time

- Growth
- Growth of Lowest-Performing Students
- NWEA meeting reading growth target
- NWEA meeting LA target
- NWEA meeting math target
- Indiana Department of Education Median Growth Student Growth Percentile

## Student Achievement

- Proficiency Status
- Proficiency Comparison: Home District
- Proficiency Comparison: Similar Schools
- Proficiency Comparison: Subgroup Proficiency
- ISTEP - passing math
- ISTEP - passing ELA
- ISTEP - passing both
- Indiana Department of Education Ranking of Schools taking ISTEP within the State, County and Local Districts
- Schools serving 3rd Grade - Percent passing the State I-READ Test
- Indiana Department of Education Median Growth Student Growth Percentile

## State, Federal and Ball State Accountability

- State Accountability System
- A-F State Accountability System
- Results under Practices Policies and Procedures for the Monitoring and Renewal of Charter Schools Authorized by Ball State University
- Charter Proposal

## Post-Secondary Readiness

- SAT/ACT Performance and Participation 2.4.a.1 and 2.4.a.2
- High School Graduation 2.4.b
- Post-Secondary College Enrollment/Employment 2.4.c and 2.4.d

# ACADEMIC, FINANCIAL AND ORGANIZATIONAL PERFORMANCE FRAMEWORKS

The Financial Performance Framework measures:

## Near Term Indicators

- Current Ratio
- Cash to Current Liabilities
- Unrestricted Days Cash On Hand
- Enrollment Variance
- Default on Loans

## Sustainability Indicators

- Total Margin
- Debt to Asset Ratio
- Cash Flow
- Debt Service Coverage Ratio

# ACADEMIC, FINANCIAL AND ORGANIZATIONAL PERFORMANCE FRAMEWORKS

The Organizational Performance Framework measures:

## Education Reform

- Essential Terms of Charter
- Education Requirements
- Special Needs Populations (SPED, ELL)

## Financial Management and Oversight

- Reporting and Compliance
- Generally Accepted Accounting Principles

## Governance and Reporting

- Governance Requirements
- Management Oversight
- Reporting Requirements

## Additional Legal Obligations

- Students and Employees
- Student Rights
- Attendance
- Credentialing
- Employee Rights
- Background Checks
- School Environment
- Facilities and Transportation
- Health and Safety
- Information Handling
- Additional Obligations

# 2016-17 ADMINISTRATIVE FEES RECEIVED

Ball State University receives an administrative fee of three percent (3%)* of the total amount the organizer receives during the state fiscal year from basic tuition support (as defined in IC 20-43-1-8) as permitted pursuant to pursuant to IC 20-24-7-7. The chart below reflect the amounts of those fees collected from each of its charter schools during the 2016-17 fiscal year.

| | |
|---|---|
| 21st Century Charter School at Gary | $149,951.52 |
| Anderson Preparatory Academy | $132,926.80 |
| Aspire Charter Academy | $125,415.66 |
| The Bloomington Project School | $47,224.62 |
| Canaan Community Academy | $13,356.00 |
| Community Montessori | $93,684.56 |
| Discovery Charter School | $78,202.56 |
| East Chicago Lighthouse Charter School | $80,974.82 |
| East Chicago Urban Enterprise Academy | $79,597.76 |
| Dr. Robert H. Faulkner Academy | $23,504.14 |
| Gary Lighthouse Charter School | $252,761.04 |
| Gary Middle College | $22,896.00 |
| Geist Montessori Academy | $59,911.40 |
| Hoosier Academy - Indianapolis | $46,250.34 |
| Hoosier Academy – Indianapolis Virtual School | $434,216.72 |
| Indiana Connections Academy | $553,908.22 |
| Insight School of Indiana | $96,987.48 |
| Inspire Academy | $26,597.52 |
| Mays Community Academy | $27,017.28 |
| Neighbors' New Vistas High School | $37,396.80 |
| New Community School | $8,790.12 |
| Options Charter School - Carmel | $31,495.22 |
| Options Charter School Noblesville | $35,578.50 |
| Renaissance Academy Charter School | $41,322.02 |
| Rock Creek Community Academy | $75,709.44 |
| Rural Community Academy | $29,326.42 |
| Veritas Academy | $17,053.00 |
| Xavier School of Excellence | $38,826.78 |
| **Total 2016-17 Administrative Fees** | **$2,660,882.74** |

* During its May 10, 2017, Business Meeting, the State Board of Education approved a measure to reduce the administrative fee that Ball State received from Hoosier Academies Virtual Charter Schools from 3% to 1%. This reduction went into effect with the June 2017 administrative fees.

# 2016-17 Expenditures

The Office of Charter Schools (OCS) has a staff of 6 full-time employees and one part-time employee. In addition, the OCS reimburses for expenses the women and men who take time away from their normal activities to review the charter school proposals. These individuals are not employees of the University. The university provides office space, access to university counsel, media consultation and other university resources and personnel. In addition, it provides the following benefits to all of its schools:

- Board Training for all its schools
- NWEA Testing for all its schools
- Indiana State University Foundation-Principal Leadership Institute
- Annual Fiscal Audits
- Academic Site Visits
- An innovative web-based file/data handling system
- Staff support with expertise in the area of finance and special education which is a unique attribute among authorizers in Indiana

The chart below reflect the amounts of those expenditures during the 2016-17 fiscal year:

| **Expenditure** | **Amount** |
|---|---|
| Salaries (2016-17) 6 full-time; 1 part-time, 5 student workers | $550,318.50 |
| Benefits | $129,900.85 |
| Advance Education Inc - Continuous Improvement Mid/End-Term Academic Reviews | $138,300.00 |
| Board Training | $8,500.00 |
| Books Acquisitions | $805.00 |
| Charter Proposal Review Panel | $1,700.00 |
| Charter School Organizational/Governance Renewal Audits | $67,500.00 |
| Computer Purchase, Rental, Repair and Maintenance | $3,598.00 |
| Conferences/Meetings - Facility Rentals and Meals | $18,961.74 |
| Dues and Membership Fees | $5,000.00 |
| Donovan, P.C. - Charter School Annual Financial Audits | $379,020.00 |
| Educational Consultants | $22,000.00 |
| Indiana Network of Independent Schools | $45,000.00 |
| Indiana State University Foundation-Principal Leadership Institute (mileage and hotel reimbursement) | $5,698.35 |
| 2016-17 NWEA Testing and Workshop Training Sessions | $129,594.00 |
| Educational Resources – Region 8 Educational Workshop, Camp Adventure Summer Practicum, etc. | $11,063.15 |
| Office Supplies | $4,424.61 |
| Postage, FedEx, UPS charges | $344.47 |
| Printing | $1,505.84 |
| Registration Fees | $6,935.00 |
| Technology Consultant | $350.00 |
| Telephone and Network Charges | $2,409.78 |
| Travel | $31,383.01 |
| Overhead and Support Services | $744,607.00 |
| **Total 2016-17 Expenditures** | **$2,305,919.40** |

# ACKNOWLEDGEMENTS

## BSU Office of Charter Schools

Ball State University Office of Charter Schools acknowledges the following organizations for their contribution in improving authorizing practices at the Office of Charter Schools.

National Association of Charter School Authorizers (NACSA)

Indiana Department of Education (IDOE)

Ball State University Charter School
2016-17 Financial Statements,
Independent Audit Reports and
Supplement Audit Reports

21st Century Charter School at Gary

# 21st CENTURY CHARTER SCHOOL @ GARY, INC.

## FINANCIAL STATEMENTS
June 30, 2017 and 2016

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

FINANCIAL STATEMENTS
June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
21st Century Charter School @ Gary, Inc.
Gary, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of 21st Century Charter School @ Gary, Inc. (the School), which comprise the statements of financial position as of June 30, 2017 and 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.

***Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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.

(Continued)

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Charter School @ Gary, Inc. as of June 30, 2017 and 2016, 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.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued our report dated January 31, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis. Indiana
January 31, 2018

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 984,734 | $ 542,186 |
| Restricted cash | 1,447,749 | 1,419,352 |
| Grants and accounts receivable | 362,720 | 417,963 |
| Prepaid expenses | 67,903 | 53,806 |
| Due from related parties (Note 4) | 78,538 | 75,887 |
| Property and equipment, net (Note 2) | 11,125,339 | 11,494,456 |
| Total assets | $ 14,066,983 | $ 14,003,650 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable and accrued expenses | $ 860,921 | $ 792,090 |
| Due to related parties (Note 4) | 41,594 | 19,542 |
| Bonds and notes payable (Note 3) | 13,260,430 | 13,454,565 |
| Total liabilities | 14,162,945 | 14,266,197 |
| **NET ASSETS** | | |
| Unrestricted | (95,962) | (262,547) |
| Total net assets | (95,962) | (262,547) |
| Total liabilities and net assets | $ 14,066,983 | $ 14,003,650 |

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Public support and revenues** | | |
| Federal grants | $ 1,267,356 | $ 1,500,022 |
| State and local grants | 8,004,763 | 6,387,274 |
| Education supporting services | 16,921 | 149,511 |
| Rental income | 75,000 | 300,000 |
| Loss on disposal of equipment | (1,624) | - |
| Total revenue and support | 9,362,416 | 8,336,807 |
| **Expenses** | | |
| Federal grant funded program activities | 1,267,356 | 1,508,919 |
| State and local grant funded program activities | 4,984,300 | 4,373,489 |
| School operations and building services | 2,406,188 | 2,624,374 |
| Education supporting services | 532,459 | 616,586 |
| Administrative | 5,528 | 10,884 |
| Total expenses | 9,195,831 | 9,134,252 |
| Change in net assets | 166,585 | (797,445) |
| Net assets at beginning of year | (262,547) | 534,898 |
| Net assets, end of year | $ (95,962) | $ (262,547) |

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 166,585 | $ (797,445) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 592,777 | 707,739 |
| Loss on disposal of property and equipment | 1,624 | - |
| Change in assets and liabilities: | | |
| Grants and accounts receivable | 28,014 | (185,290) |
| Prepaid expenses | (14,097) | (5,260) |
| Due to/from related parties | 41,780 | 3,211 |
| Accounts payable and accrued other expenses | 73,681 | 1,253 |
| Net cash from operating activities | 890,364 | (275,792) |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (169,419) | (189,868) |
| Proceeds (deposits) to restricted cash | (28,397) | 3,918 |
| Net cash from investing activities | (197,816) | (185,950) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of note payable | - | 900,000 |
| Principal payments on bonds and notes payable | (250,000) | (190,000) |
| Net cash used by financing activities | (250,000) | 710,000 |
| Net change in cash and cash equivalents | 442,548 | 248,258 |
| Cash and cash equivalents, beginning of year | 542,186 | 293,928 |
| **Cash and cash equivalents, end of year** | $ 984,734 | $ 542,186 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | $ 813,807 | $ 822,338 |

See accompanying notes to financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Organization: 21st Century Charter School @ Gary. Inc. (the School) is a nonprofit corporation established to operate a charter school. The School is dedicated to ensure that all students show growth in character, academics, life skills, the arts, and wellness using teaching skills tailored to meet the needs of each student.

The School was established under the laws of the State of Indiana, and operates under a Board of School Directors form of government. The financial statements of the School are consolidated into the Greater Education Opportunities Foundation (GEOF) financial statements due to economic control.

Method of Accounting: The School maintains its accounts on the accrual basis of accounting and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income Taxes: The School is exempt from income taxes on income from related activities under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the School is not considered to be a private foundation under Section 509(a) of the Internal Revenue Code.

The School has adopted applicable guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that 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 benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

The School does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The School recognizes interest and/or penalties related to income tax matters in income tax expense. The School did not have any amounts accrued for interest and penalties at June 30, 2017 and 2016.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000. Bank balances may periodically exceed FDIC insured limits. For the purpose of the statement of cash flows, the School considers all highly liquid debt instruments, if any, purchased with a maturity of three months or less to be cash equivalent.

Restricted Cash: Restricted cash consists of funds held in trust accounts for capital expenditures and debt service reserves.

Grants Receivable: Grants receivable balances consist of amounts billed or billable for services provided or contracted. The School does not accrue interest on any of its grants receivables.

Allowances: No allowance for doubtful accounts is recorded as of June, 30, 2017 and 2016. The allowances are based upon prior experience and management's analysis of specific receivables and promises to give. Losses are charged off to the reserve when management deems further collection efforts will no longer produce additional recoveries. The School currently considers all receivables to be fully collectible.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property and Equipment: Expenditures for property and equipment and items in excess of $500 which substantially increase the useful lives of existing assets are capitalized at cost or at fair value at date of gift. Repairs and maintenance costs are expensed as incurred. Depreciation has been computed on straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

| | |
|---|---|
| Buildings and improvements | 39 years |
| Property and equipment | 3-7 years |

Impairment of Long-Lived Assets: In accordance with GAAP, the School reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. As of June 30, 2017 and 2016, management believes that no impairment exists.

Fair Value of Financial Instruments: Cash and cash equivalents and accounts payable approximate fair value because of the short maturity of these instruments. Grants receivable are not readily marketable. The School has estimated their fair value to be the carrying value. The carrying value of all the School's financial instruments, approximate fair value, except for bonds and notes payable. The fair value of the School's bonds and notes payable is estimated based on quoted market prices for the same or similar issues.

Basis of Presentation: The School follows GAAP and reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – The unrestricted net asset class includes general assets and liabilities of the School. The unrestricted net assets of the School may be used at the discretion of management to support the School's purposes and operations.

Temporarily Restricted Net Assets – The temporarily restricted net asset class includes assets of the School related to gifts and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. The School had no temporarily restricted net assets as of June 30, 2017 and 2016.

Permanently Restricted Net Assets – The permanently restricted net asset class includes assets of the School related to contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School had no permanently restricted net assets as of June 30, 2017 and 2016.

Federal and State Grants: Support funded by grants is recognized as the School performs the contracted services under various grant agreements. Grant revenue is typically recognized as earned as the eligible expenses are incurred. Some of the School's grant agreements are not on a cost reimbursement basis, and support is recognized when earned. This includes the School's basic grant support from the State which is based on per-pupil funding. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Functional and Allocated Expenses: Expenses are charged directly to activities when specifically identifiable. All other costs are allocated to the activities based upon various actual statistical bases. Salaries and related expenses are charged based on the relative amount of time historically spent by personnel. Total program expenses were $7,243,341 and $7,085,255, respectively, for the years ended June 30, 2017 and 2016. Total management and general expenses were $1,952,490 and $2,048,997, respectively, for the years ended June 30, 2017 and 2016. The School did not incur any fundraising expenses during either year.

Advertising: The School expenses advertising costs as incurred. During 2017 and 2016, expenses totaling $34,098 and $34,712 were incurred for advertising.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets or total net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2017, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2017. Management has performed their analysis through January 31, 2018, the date the financial statements were issued.

**NOTE 2 - PROPERTY AND EQUIPMENT**

At June 30, the carrying value of land, buildings and building improvements, and equipment, consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 296,500 | $ 296,500 |
| Building and building improvements | 11,489,669 | 11,435,193 |
| Equipment | 2,466,422 | 2,567,335 |
| | 14,252,591 | 14,299,028 |
| Less: accumulated depreciation | (3,127,252) | (2,804,572) |
| | $ 11,125,339 | $ 11,494,456 |

Depreciation expense for the years ended June 30, 2017 and 2016 were $536,912 and $643,625, respectively.

**NOTE 3 – BONDS AND NOTES PAYABLE**

Bonds and notes payable consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Series 2013A bonds payable, maturing in March 2033, including interest computed at 6%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013. Principal payments begin on February 28, 2018. | $ 5,525,000 | $ 5,525,000 |
| Series 2013A bonds payable, maturing in March 2043, including interest computed at 6.25%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013. Principal payments begin on February 28, 2034. | 7,355,000 | 7,355,000 |
| Series 2013B bonds payable, maturing in March 2018, including interest computed at 7%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013. | 50,000 | 255,000 |
| Note payable to State of Indiana Treasurer to support charter school operations, payable in semi-annual installments of $45,000, plus interest computed at 1.00%, through maturity in July 2026. | 855,000 | 900,000 |
| | 13,785,000 | 14,035,000 |
| Bond issuance cost, net of accumulated amortization | (524,570) | (580,435) |
| Total bonds and notes payable | $13,260,430 | $13,454,565 |

The estimated future principal payments due on long term debt are:

| | |
|---|---|
| 2018 | $ 305,000 |
| 2019 | 320,000 |
| 2020 | 335,000 |
| 2021 | 350,000 |
| 2022 | 365,000 |
| Thereafter | 12,110,000 |
| | $ 13,785,000 |

Total interest expense during the years ended June 30, 2017 and 2016 were $813,029 and $822,651, respectively. The School has financial and nonfinancial covenants associated with the debt obligations. At June 30, 2017 and 2016, the School was not in compliance with certain covenants. The School obtained a waiver from the bondholder through June 30, 2018.

(Continued)

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The School has a management agreement with the Greater Educational Opportunities Foundation (GEOF). Under the management agreement, GEOF charges administrative and per student fees in exchange for the management, operation, administration, IT support, payroll and accounting services provided. During the years ended June 30, 2017 and 2016, the School paid GEOF fees of $532,459 and $495,169, respectively. As part of the management services provided, GEOF acts as the payor of certain operating expenses, which are reimbursed to GEOF by the School. The School's board retains final authority and responsibility for financial and budgetary commitments. At June 30, 2017 and 2016, the School has a payable to GEOF for $41,594 and $19,542, respectively, for various transactions and a receivable from GEOF in the amount of $78,538 and $75,887, respectively, for overpayment of administrative fees,

The School leased space to Gary Middle College, Inc. through September 30, 2016 until Gary Middle College, Inc. relocated to a different facility. Rent income totaled $75,000 and $300,000 for the years ended June 30, 2017 and 2016.

**NOTE 5 - CHARTER AGREEMENT**

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 Ball State University an annual administrative fee equal to 3% of State tuition support, along with other licensing fees. Payments under this charter agreement were $136,689 and $110,938 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 6 - PENSION PLANS**

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the plan. There were no employer matching contributions to the plan for the years ended June 30, 2017 and 2016.

The School participates in the Indiana Public Retirement System (INPRS). INPRS includes both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). PERF is a defined benefit pension plan. PERF is a cost sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. TRF is a defined benefit pension plan. TRF is a cost-sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The School employees are required to contribute three percent of their annual covered salary. The School is required to contribute an actuarially determined rate determined annually for PERF and TRF. The School's expense for the years ended June 30, 2017 and 2016 was $301,534 and $245,292, respectively.

# OTHER REPORTS AND SUPPLEMENTARY INFORMATION

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

| Federal Grantor/Pass-Through Grantor/ Program Title | CFDA Number | Pass Through Number | Total Federal Expenditures |
|---|---|---|---|
| U.S. Department or Education | | | |
| Passed through the Indiana Department of Education | | | |
| Title I, Part A | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY 2015-2016 | $ 89 |
| Title I Grants to Local Educational Agencies | 84.010 | FY 2016-2017 | 1,079,165 |
| Total for Title I Grants to Local Educational Agencies | | | 1,079,254 |
| Special Education Grants to States | 84.027 | FY 2016-2017 | 147,242 |
| Supporting Effective Instruction State Grants | 84.367 | FY 2015-2016 | 9,860 |
| Supporting Effective Instruction State Grants | 84.367 | FY 2016-2017 | 31,000 |
| Total for Supporting Effective Instruction State Grants | | | 40,860 |
| Total expenditures of federal awards | | | $ 1,267,356 |

See accompanying note to the Schedule of Expenditures of Federal Awards.

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
21st Century Charter School @ Gary, Inc.
Gary, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 21st Century Charter School @ Gary, Inc. (the School), which comprise the statement of financial position as of June 30, 2017, and the related statement of activities, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 31, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis. Indiana
January 31, 2018

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
21st Century Charter School @ Gary, Inc.
Gary, Indiana

## Report on Compliance for Each Major Federal Program

We have audited 21st Century Charter School @ Gary, Inc.'s (the School) compliance with the types of compliance requirements described in the *OMB Uniform Guidance* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2017. The School's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

(Continued)

**Report on Internal Control Over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
January 31, 2018

**Section 1 – Summary of Auditor's Results**

*Financial Statements*

| | | |
|---|---|---|
| Type of report the audit issued on whether the Financial statements audited were prepared In accordance with GAAP: | Unmodified | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | ____ Yes | X No |
| Significant deficiencies identified not considered to be material weaknesses? | ____ Yes | X None reported |
| Noncompliance material to financial statements noted? | ____ Yes | X No |

*Federal Awards*

| | | |
|---|---|---|
| Internal control over major federal programs: | | |
| Material weakness(es) identified? | ____ Yes | X No |
| Significant deficiency(ies) identified? | ____ Yes | X None reported |
| Type of auditor's report issued on compliance for major federal programs: | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | ____ Yes | X No |

Identification of major federal programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 84.010 | Title I Grants to Local Educational Agencies |

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? X Yes ____ No

**Section II – Financial Statement Findings**

None.

**Section III – Federal Award Findings and Questioned Costs**

None.

None reported.

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

Indiana State Board of Accounts Compliance Report of 21st Century Charter School @ Gary. Inc.

The above 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 addressing is *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools.*

INDIANA STATE BOARD OF ACCOUNTS
COMPLIANCE REPORT OF
**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

LAKE COUNTY, INDIANA
July 1, 2016 to June 30, 2017

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

LAKE COUNTY, INDIANA
July 1, 2016 to June 30, 2017

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21$^{ST}$ CENTURY CHARTER SCHOOL @ GARY, INC.
SCHOOL OFFICIALS

| Office | Official | Term |
|---|---|---|
| Lead Principal | Anthony Cherry | July 1, 2016 to June 30, 2017 |
| Treasurer | Dana Johnson Teasley | July 1, 2016 to June 30, 2017 |
| President of the Charter Board | Arlene Colvin | July 1, 2016 to June 30, 2017 |

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INDEPENDENT ACCOUNTANTS REPORT ON COMPLIANCE
WITH GUIDELINES FOR THE AUDITS OF CHARTER
SCHOOLS PERFORMED BY PRIVATE EXAMINERS

Board of Directors
21st Century Charter School @ Gary, Inc.
Gary, Indiana

We have audited the financial statements of 21st Century Charter School @ Gary, Inc. ("School") as of and for the year ended June 30, 2017, and have issued our report thereon, dated January 31, 2018.

In connection with that audit and with our consideration of School's internal control as required by the *Guidelines for the Audits of Charter Schools Performed by Private Examiners* ("Guide"), issued by the Indiana State Board of Accounts, we performed procedures prescribed under the Guide for the year ended June 30, 2017.

As required by the Guide, we performed procedures to test compliance with the requirements that are applicable to the School. Our procedures were substantially narrower in scope than an audit, the objective of which is the expression of an opinion on the School's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance with those requirements, which is described in the accompanying Schedule of Findings as item 17-001.

The purpose of this report is solely to describe the scope of our testing over compliance with the requirements prescribed under the Guide and the results of that testing, and not to provide a legal determination of compliance with those requirements. Accordingly, this report is not suitable for any other purpose.

The School's response to the finding identified is described in the accompanying Schedule of Findings. The School's response was not subjected to the procedures applied and, accordingly, we express no opinion on it.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
January 31, 2018

**FINDING 17-001: CREDIT CARDS**

**Criteria:** Part 10 of the Indiana Charter School Manual states in part, "Payment shall not be made on the basis of a statement or a credit card slip only. Procedures for payments shall be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee shall be the responsibility of that officer or employee."

**Condition**: During our testing of travel expenditures, it was noted that for multiple transactions, in our review of two months' of credit card statements, the School did not maintain a copy of a receipt to support the expenditure. These transactions related to one card-holder.

**Recommendation**: We recommend the School issue, and retain copies of, receipts at the time of the transaction for all receipts of funds. All receipts should be reviewed and acknowledged by signature of the Treasurer, or equivalent.

**Management Response**: The School has reviewed the credit card receipts issue, and has found that all of the expenses aligned properly with the line items detailed on the credit card statement, and no funds are unaccounted for or have been improperly spent. However, the school recognizes the need for better record-keeping in this area, and will review its receipt policy and will ensure that a better job is done maintaining receipts and records in the future.

EXIT CONFERENCE

The contents of this report were discussed on November 30, 2017, with Dana Johnson Teasley, Treasurer. The Official Response has been made a part of this report and may be found immediately following the finding on page 3.

Anderson Preparatory Academy

**CENTRAL INDIANA MILITARY ACADEMY, INC.**
**d/b/a ANDERSON PREPARATORY ACADEMY**

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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Donovan CPAs

*Independent Auditors' Report*

The Board of Directors
Central Indiana Military Academy, Inc.

We have audited the accompanying financial statements of Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy as of June 30, 2017 and 2016, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

September 22, 2017
Indianapolis, Indiana

# CENTRAL INDIANA MILITARY ACADEMY, INC.
# d/b/a ANDERSON PREPARATORY ACADEMY
## STATEMENTS OF FINANCIAL POSITION
### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 699,209 | $ 719,964 |
| Grants receivable | 47,326 | - |
| Prepaid expenses | 47,426 | 43,837 |
| *Total current assets* | 793,961 | 763,801 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 320,000 | 320,000 |
| Buildings and improvements | 3,143,177 | 3,012,555 |
| Furniture and equipment | 2,108,669 | 1,476,034 |
| Textbooks | 143,963 | 143,963 |
| Vehicles | 41,750 | 41,750 |
| Less: accumulated depreciation | (2,105,831) | (1,749,104) |
| *Property and equipment, net* | 3,651,728 | 3,245,198 |
| **TOTAL ASSETS** | $ 4,445,689 | $ 4,008,999 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 142,443 | $ 135,628 |
| Current portion of capital lease obligations | 82,308 | 59,950 |
| Accounts payable and accrued expenses | 334,047 | 295,555 |
| Refundable advances | 3,046 | 19,485 |
| *Total current liabilities* | 561,844 | 510,618 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | 1,549,318 | 1,691,781 |
| Capital lease obligations, net of current portion | 226,416 | 119,886 |
| *Total long-term liabilities* | 1,775,734 | 1,811,667 |
| *Total liabilities* | 2,337,578 | 2,322,285 |
| **NET ASSETS** | | |
| Unrestricted | 2,026,194 | 1,595,915 |
| Temporarily restricted | 81,917 | 90,799 |
| *Total net assets* | 2,108,111 | 1,686,714 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 4,445,689 | $ 4,008,999 |

See independent auditors' report and accompanying notes to the financial statements

**CENTRAL INDIANA MILITARY ACADEMY, INC.**

**d/b/a ANDERSON PREPARATORY ACADEMY**

**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| **REVENUE AND SUPPORT** | | | | | | |
| State education support | $ 5,461,128 | $ - | $ 5,461,128 | $ 5,456,238 | $ - | $ 5,456,238 |
| Grant revenue | 1,222,702 | - | 1,222,702 | 1,091,099 | - | 1,091,099 |
| Student fees | 128,035 | 72,877 | 200,912 | 135,445 | 80,149 | 215,594 |
| Contributions | 33,319 | - | 33,319 | 17,369 | - | 17,369 |
| In-kind contributions | 280,703 | - | 280,703 | 30,500 | - | 30,500 |
| Fundraising and other income | 137,615 | 108,995 | 246,610 | 146,313 | 102,711 | 249,024 |
| Net assets released from restrictions | 190,754 | (190,754) | - | 182,243 | (182,243) | - |
| *Total revenue and support* | 7,454,256 | (8,882) | 7,445,374 | 7,059,207 | 617 | 7,059,824 |
| **EXPENSES** | | | | | | |
| Program services | 5,719,895 | - | 5,719,895 | 5,282,006 | - | 5,282,006 |
| Management and general | 1,304,082 | - | 1,304,082 | 1,220,877 | - | 1,220,877 |
| *Total expenses* | 7,023,977 | - | 7,023,977 | 6,502,883 | - | 6,502,883 |
| **CHANGE IN NET ASSETS** | 430,279 | (8,882) | 421,397 | 556,324 | 617 | 556,941 |
| **NET ASSETS, BEGINNING OF YEAR** | 1,595,915 | 90,799 | 1,686,714 | 1,039,591 | 90,182 | 1,129,772 |
| **NET ASSETS, END OF YEAR** | $ 2,026,194 | $ 81,917 | $ 2,108,111 | $ 1,595,915 | $ 90,799 | $ 1,686,714 |

See independent auditors' report and accompanying notes to the financial statements

# CENTRAL INDIANA MILITARY ACADEMY, INC.
# d/b/a ANDERSON PREPARATORY ACADEMY
## STATEMENTS OF FUNCTIONAL EXPENSES
### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 3,213,157 | $ 666,789 | $ 3,879,946 | $ 2,940,636 | $ 605,447 | $ 3,546,083 |
| Employee benefits | 641,916 | 147,411 | 789,327 | 572,495 | 124,840 | 697,335 |
| Staff development | 54,134 | 2,650 | 56,784 | 24,762 | 5,430 | 30,192 |
| Professional services | 265,288 | 178,201 | 443,489 | 278,705 | 194,171 | 472,876 |
| Property rental and maintenance | 249,952 | - | 249,952 | 274,846 | - | 274,846 |
| Authorizer oversight fees | - | 123,562 | 123,562 | - | 124,051 | 124,051 |
| Transportation | 20,594 | - | 20,594 | 16,051 | - | 16,051 |
| Classroom, kitchen and office supplies | 362,896 | 29,011 | 391,907 | 393,276 | 26,332 | 419,608 |
| Occupancy | 410,372 | - | 410,372 | 354,442 | - | 354,442 |
| Depreciation | 356,727 | - | 356,727 | 287,230 | - | 287,230 |
| Interest | 95,924 | - | 95,924 | 104,031 | - | 104,031 |
| Insurance | - | 118,939 | 118,939 | - | 109,105 | 109,105 |
| Other | 48,935 | 37,519 | 86,454 | 35,532 | 31,501 | 67,033 |
| *Total functional expenses* | $ 5,719,895 | $ 1,304,082 | $ 7,023,977 | $ 5,282,006 | $ 1,220,877 | $ 6,502,883 |

See independent auditors' report and accompanying notes to the financial statements

# CENTRAL INDIANA MILITARY ACADEMY, INC.
## d/b/a ANDERSON PREPARATORY ACADEMY
### STATEMENTS OF CASH FLOWS
**For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 421,397 | $ 556,941 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 356,727 | 287,230 |
| In-kind contribution of capitalized equipment | (280,703) | - |
| Changes in certain assets and liabilities: | | |
| Grants receivable | (47,326) | 38,641 |
| Prepaid expenses | (3,589) | (9,673) |
| Accounts payable and accrued expenses | 38,492 | (352,690) |
| Refundable advances | (16,439) | 19,485 |
| *Net cash provided by operating activities* | 468,559 | 539,934 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (287,754) | (235,760) |
| **FINANCING ACTIVITIES** | | |
| Principal reduction of capital lease obligations | (65,912) | (167,103) |
| Principal repayment of notes payable | (135,648) | (128,914) |
| *Net cash used in financing activities* | (201,560) | (296,017) |
| **NET CHANGE IN CASH** | (20,755) | 8,157 |
| **CASH, BEGINNING OF YEAR** | 719,964 | 711,807 |
| **CASH, END OF YEAR** | $ 699,209 | $ 719,964 |

| | | |
|---|---|---|
| **SUPPLEMENTAL INFORMATION** | | |
| Property and equipment obtained under capital lease obligation | $ 194,800 | $ 96,600 |
| Property and equipment obtained via in-kind contribution | 280,703 | - |
| Cash paid for interest | 95,924 | 104,031 |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy (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 serving grades kindergarten through twelve and is sponsored by Ball State University.

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.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.

- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

Revenue Recognition – Revenues primarily 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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Contributions and Fees – The School receives income from contributions, student fees, and fundraising events that support certain school activities. These receipts are reported as restricted support in that they are received with stipulations that limit their use. When a donor restriction expires, that is, when the purpose or time 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Central Indiana Military Academy, Inc. has received a determination from the U.S. Internal Revenue Service 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

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 $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:

| | |
|---|---|
| Building and improvements | 5 to 40 years |
| Furniture and equipment | 3 years |
| Textbooks | 4 years |
| Vehicles | 5 years |

Subsequent Events – The School evaluated subsequent events through September 22, 2017, 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 require.

## NOTE 2 - REVOLVING LINE OF CREDIT

The School has a $100,000 revolving line of credit to provide short-term financing, which is secured by all business assets. Bank advances on the credit line carry an interest rate of .75% above the lender’s prime rate. There were no advances outstanding on the line of credit as of June 30, 2017 and 2016.

## NOTE 3 - NOTES PAYABLE

Notes payable were comprised of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Mortgage loan payable to MainSource Bank, payable in monthly installments of $4,214 including interest at 4.85% per annum (adjustable annually beginning September 2019) through July 2026, secured by a mortgage on School facilities and all business assets | $ 370,327 | $ 401,837 |
| Mortgage loan payable to MainSource Bank, payable in monthly installments of $3,224 including interest at 4.85% per annum (adjustable annually beginning September 2019) through March 2029, secured by a mortgage on School facilities and all business assets | 329,301 | 357,486 |
| Mortgage loan payable to MainSource Bank, payable in monthly installments of $7,341 including interest at 4.85% per annum (adjustable annually beginning August 2019) through August 2026, secured by a mortgage on School facilities and all business assets | 649,081 | 703,788 |
| Mortgage loan payable to MainSource Bank, payable in monthly installments of $3,761 including interest at 4.85% per annum (adjustable annually beginning August 2019) through July 2026, secured by a mortgage on School facilities and all business assets | 343,052 | 364,298 |
| | 1,691,761 | 1,827,409 |
| Less: current portion | (142,443) | (135,628) |
| Long-term portion | $ 1,549,318 | $ 1,691,781 |

Principal maturities of notes payable are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 142,443 |
| 2019 | 149,628 |
| 2020 | 156,978 |
| 2021 | 165,050 |
| 2022 | 173,351 |
| Thereafter | 904,311 |
| | $ 1,691,761 |

## NOTE 4 - LEASES

The School leases various items of equipment under capital leases. At June 30, 2017, the cost and accumulated depreciation relating to these assets were $764,519 and $512,685, respectively ($569,719 and $471,730, respectively, at June 30, 2016).

Minimum future lease payments as of June 30, 2017 under capital leases and the present value of the net minimum lease payments are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 98,328 |
| 2019 | | 105,550 |
| 2020 | | 80,487 |
| 2021 | | 60,868 |
| Less: amount representing interest | | (36,509) |
| | $ | 308,724 |

The School also leases various items of equipment under operating leases. Total expense under these operating leases for 2017 and 2016 was $34,444 and $34,317, respectively. Minimum future rental payments as of June 30, 2017 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 12,178 |
| 2019 | | 7,104 |

## NOTE 5 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel 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 determined annually by the INPRS Board. For the years ended June 30, 2017 and 2016, the School contributed 7.5% of compensation for eligible teaching personnel to TRF. Should the School elect to withdraw from TRF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2016 (the latest year reported), TRF was more than 80% funded.

All other employees are eligible to participate in a School-sponsored section 403(b) plan. Under this plan, the School contributes 6% of compensation, as defined in the plan document. Additional contributions may be made at the discretion of the Board of Directors. No discretionary contributions were made in 2017 or 2016. Retirement plan expense under both plans was $249,843 and $223,164 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 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. Payments under this charter agreement were $123,562 and $124,051 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

The School has contracted with a third party to provide network and technology services to the School. Under this contract, the School has committed to make annual payments of approximately $75,000 through August 2020 with the option to purchase additional services for which the School is billed as services are provided. The School has the option to terminate the agreement with 30 days notice. Payments under this agreement were $79,512 and $79,969 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Madison 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 may result in additional liability to be imposed on the School.

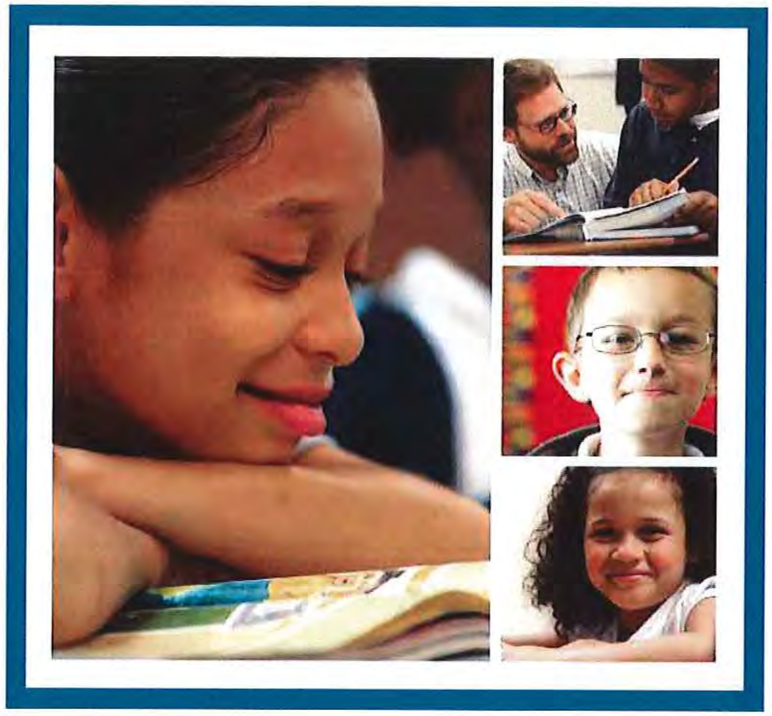
Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2017, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at MainSource Bank, and are insured up to the FDIC insurance limit.

## NOTE 8 - 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 between program and management services.

Aspire Charter Academy

# ASPIRE CHARTER ACADEMY, INC.



Financial Statements as of and for the Year Ended June 30, 2017, Required Supplemental Information and Additional Information for the Year Ended June 30, 2017, Federal Awards Supplemental Information for the Year Ended June 30, 2017 and Independent Auditors' Reports

National Heritage Academies®

## ASPIRE CHARTER ACADEMY, INC.

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# ASPIRE CHARTER ACADEMY, INC.

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Independent Auditor's Report

To the Board of Directors
Aspire Charter Academy, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining funds of Aspire Charter Academy, Inc. (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Aspire Charter Academy, Inc.'s basic financial statements as listed in the table of contents.

***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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Academy'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 opinions.

To the Board of Directors
Aspire Charter Academy, Inc.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining funds of Aspire Charter Academy, Inc. as of June 30, 2017 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Aspire Charter Academy, Inc.'s basic financial statements. The schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and the schedule of revenues, expenditures, and changes in fund balance - nonmajor governmental funds and federal grant activity included in general fund are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors
Aspire Charter Academy, Inc.

The schedule of revenues, expenditures, and changes in fund balance - nonmajor governmental funds and federal grant activity included in general fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017 on our consideration of Aspire Charter Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aspire Charter Academy, Inc.'s internal control over financial reporting and compliance.

Plante & Moran, PLLC

November 20, 2017

The discussion and analysis of Aspire Charter Academy Inc.'s (the "Academy") financial performance provides an overall review of the Academy's financial activities as of and for the year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. It should be read in conjunction with the financial statements and notes to the financial statements, which immediately follow this section.

## Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund— the General Fund — with the other funds presented in one column as the nonmajor funds.

Management Discussion and Analysis
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements    Fund Financial Statements

Notes to Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for the Governmental Funds

(Additional Information)
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

## Reporting the Academy as a whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The Academy's Statement of Net Position — the difference between assets and liabilities, as reported in the Statement of Net Position — is one way to measure the Academy's financial position. The relationship between revenues and expenses is the Academy's operating results. The Academy's goal is to provide services to our students, not to generate profits as private sector companies do. One must consider nonfinancial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Activities report the activities of the Academy, all of which are classified as governmental. These activities encompass all the Academy's services, including instruction, support services and food services. State aid (based on student count) and state and federal grants finance most of these activities. The Academy has entered into a services agreement (the "agreement") with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

**Reporting the Academy's Fund Financial Statements**

The Academy's fund financial statements provide detailed information about the most significant funds – not the Academy as a whole. Some funds are required to be established by state law. However, the Academy establishes other funds to help it control and manage money for particular purposes or as required by state law (the School Lunch Fund is an example). The governmental funds of the Academy use the following accounting approach:

*Governmental Funds* – All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. Only those revenues that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred. The governmental fund statements provide a short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the State of Net Position and the Statement of Activities) and governmental funds in reconciliations presented as part of the statements.

## The Academy as a Whole

Recall that the Statement of Net Position provides the perspective of the Academy as a whole. The table below provides a summary of the Academy's net position as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Assets: | | |
| Current assets | $ 847,218 | $ 266,952 |
| Capital assets, net of accumulated depreciation | 75,049 | 91,588 |
| Total assets | 922,267 | 358,540 |
| Liabilities - current | 824,786 | 239,500 |
| Net position: | | |
| Net investment in capital assets | 75,049 | 91,588 |
| Unrestricted | 22,432 | 27,452 |
| Total net position | $ 97,481 | $ 119,040 |

The unrestricted net position of governmental activities represents the accumulated results of life to date operations. These assets can be used to finance day-to-day operations without constraints such as legislative or legal requirements. The results of the current-year operations for the Academy as a whole are reported in the Statement of Activities, which shows the change in net position.

The results of operations for the Academy as a whole are reported in the summarized Statements of Activities (below) which show the changes in net position for the fiscal years ended June 30:

| | 2017 | 2016 |
|---|---|---|
| Revenues: | | |
| State aid | $ 5,042,042 | $ 4,969,280 |
| State aid reduction (Note 5) | - | (2,544,248) |
| Operating grants | 2,330,232 | 2,166,275 |
| Charges for services | 137 | 80 |
| Private sources - NHA | - | 2,362,305 |
| Total revenues | 7,372,411 | 6,953,692 |
| Expenses— | | |
| Contracted service fee: | | |
| Instruction | 3,592,486 | 3,269,203 |
| Support services | 3,294,191 | 3,223,932 |
| Food services | 490,754 | 471,380 |
| Depreciation (unallocated) | 16,539 | 18,950 |
| Total expenses | 7,393,970 | 6,983,465 |
| Change in net position | $ (21,559) | $ (29,773) |

As reported in the Statement of Activities, the cost of governmental activities was $7,393,970 for 2017. These activities were primarily funded by the Academy's state and local aid (based on student count) and governments that subsidized certain programs with grants. Revenues – *Private sources – NHA* represent a contribution granted by NHA for excess of Academy expenditures over public revenues available.

The Academy experienced a decrease in net position of $21,559. Under the terms of the agreement with NHA, NHA provides a spending account to the board of directors for discretionary expenditures on an annual basis. The primary reason for the change in net assets is the timing of these discretionary expenditures.

A reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities appears on page 12.

**Fund Financial Statements**

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes or as required by state law. Looking at funds helps the reader to consider whether the Academy is being accountable for the resources that the State and others provide to it and may provide more insight into the Academy's overall financial health.

The Academy's instruction and support services activities are reported in the General Fund. The School Lunch Fund represents food service activities, the Textbook Rental Fund represents activities related to textbook rentals, and the federal grant funds represent the activities for the federal grants other than child nutrition. The Academy's combined fund balance was $22,432 at June 30, 2017.

A reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position appears on page 11.

**Budgetary Highlights**

Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Budgeted revenues were increased by $562,650 from the original budget. Revenues were changed to reflect the following:

| | |
|---|---|
| State Aid | Increase |
| Other State Sources | Increase |
| Federal Sources | Increase |
| Private Sources | Increase |
| Private Sources - NHA | Decrease |

Budgeted expenditures were increased by $589,457. This change was to reflect the change in anticipated funding. The Academy did not have any significant budget variances.

## Capital Assets

At June 30, 2017, the Academy had $75,049 invested in capital assets primarily other equipment. Capital assets are substantially provided as part of the agreement with NHA.

## General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2018.

## Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512.

## ASPIRE CHARTER ACADEMY, INC.

**STATEMENT OF NET POSITION**
**JUNE 30, 2017**

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| CURRENT ASSETS: | |
| Cash | $ 540,279 |
| Due from governmental revenue sources | 306,939 |
| Total current assets | 847,218 |
| NON-CURRENT ASSETS: | |
| Capital assets | 191,883 |
| Less accumulated depreciation | (116,834) |
| Total capital assets, net of accumulated depreciation | 75,049 |
| TOTAL | $ 922,267 |
| **LIABILITIES AND NET POSITION** | |
| LIABILITIES: | |
| Unearned revenue | $ 1,754 |
| Contracted service fee payable | 823,032 |
| Total liabilities | 824,786 |
| NET POSITION: | |
| Net investment in capital assets | 75,049 |
| Unrestricted | 22,432 |
| Total net position | 97,481 |
| TOTAL | $ 922,267 |

See notes to financial statements.

# ASPIRE CHARTER ACADEMY, INC.

## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2017

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants | Governmental Activities Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| FUNCTIONS/PROGRAMS | | | | |
| Governmental activities: | | | | |
| Contracted service fee: | | | | |
| Instruction | $ 3,592,486 | $ - | $ 1,079,676 | $ (2,512,810) |
| Support services | 3,294,191 | - | 780,136 | (2,514,055) |
| Food services | 490,754 | 137 | 470,420 | (20,197) |
| Depreciation (unallocated) | 16,539 | - | - | (16,539) |
| Total governmental activities | $ 7,393,970 | $ 137 | $ 2,330,232 | (5,063,601) |
| GENERAL PURPOSE REVENUES: | | | | |
| State aid unrestricted | | | | 5,042,042 |
| Total general purpose revenue | | | | 5,042,042 |
| CHANGE IN NET POSITION | | | | (21,559) |
| NET POSITION: | | | | |
| Beginning of year | | | | 119,040 |
| End of year | | | | $ 97,481 |

See notes to financial statements.

## ASPIRE CHARTER ACADEMY, INC.

**BALANCE SHEET — GOVERNMENTAL FUNDS**
**JUNE 30, 2017**

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 540,279 | $ - | $ 540,279 |
| Due from governmental revenue sources | 292,499 | 14,440 | 306,939 |
| TOTAL | $ 832,778 | $ 14,440 | $ 847,218 |
| **LIABILITIES AND FUND BALANCE** | | | |
| LIABILITIES: | | | |
| Unearned revenue | $ 1,442 | $ 312 | $ 1,754 |
| Contracted service fee payable | 743,807 | 14,128 | 757,935 |
| Total liabilities | 745,249 | 14,440 | 759,689 |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Unavailable revenue | 65,097 | - | 65,097 |
| Total liabilities and deferred inflows of resources | 810,346 | 14,440 | 824,786 |
| FUND BALANCE: | | | |
| Committed | 18,453 | - | 18,453 |
| Unassigned | 3,979 | - | 3,979 |
| Total fund balance | 22,432 | - | 22,432 |
| TOTAL | $ 832,778 | $ 14,440 | $ 847,218 |

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**

| | | |
|---|---|---|
| Total governmental fund balance | | $ 22,432 |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds: | | |
| Capital assets cost | $ 191,883 | |
| Accumulated depreciation | (116,834) | 75,049 |
| Due from governmental revenue sources not available to pay current period expenditures therefore deferred in the funds | | 65,097 |
| Contracted service fee payable not due and payable in the current period and not reported in the funds | | (65,097) |
| Net position of governmental activities | | $ 97,481 |

See notes to financial statements.

## ASPIRE CHARTER ACADEMY, INC.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS**
**YEAR ENDED JUNE 30, 2017**

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|
| REVENUES: | | | |
| State aid | $ 5,042,042 | $ - | $ 5,042,042 |
| Other state sources | 515,351 | 52,319 | 567,670 |
| Federal sources | 1,242,979 | 470,421 | 1,713,400 |
| Private sources | 18,997 | 137 | 19,134 |
| Total revenues | 6,819,369 | 522,877 | 7,342,246 |
| EXPENDITURES — Contracted service fee: | | | |
| Instruction | 3,540,167 | 52,319 | 3,592,486 |
| Food services | - | 490,754 | 490,754 |
| Support services | 3,264,026 | - | 3,264,026 |
| Total expenditures | 6,804,193 | 543,073 | 7,347,266 |
| REVENUES OVER (UNDER) EXPENDITURES | 15,176 | (20,196) | (5,020) |
| OTHER FINANCING (USES) SOURCES — Operating transfers (out) in | (20,196) | 20,196 | - |
| NET CHANGE IN FUND BALANCE | (5,020) | - | (5,020) |
| FUND BALANCE — Beginning of year | 27,452 | - | 27,452 |
| FUND BALANCE — End of year | $ 22,432 | $ - | $ 22,432 |

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

| | |
|---|---|
| Net change in fund balance — total governmental funds | $ (5,020) |
| Governmental funds report capital outlays as expenditures, in the statement of activities these costs are allocated over their useful lives as depreciation | (16,539) |
| Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds | 65,097 |
| Revenue reported in the governmental funds as available and measurable — reported in the statement of activities in prior years | (34,932) |
| Contracted service fee recognized consistent with the revenue policy | (30,165) |
| Change in net position of governmental activities | $ (21,559) |

See notes to financial statements.

## 1. NATURE OF OPERATIONS AND REPORTING ENTITY

Aspire Charter Academy, Inc. (the "Academy") is a public benefit not-for-profit organization established under the laws of the State of Indiana that provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy operates a public charter school established under Indiana Code 20-24-3-1 and is sponsored by the Ball State University, which is responsible for oversight of the Academy's operations. Under this Charter, the Academy has agreed to pay to the Ball State University an annual fee equal to 3% of the state tuition support, which is included in the expenses assumed by NHA as described above. This amounted to approximately $105,933 for the fiscal year 2017. The charter expires on June 30, 2019. Management believes the charter will continue to be renewed in the ordinary course of business.

The Academy is exempt from taxation as a governmental entity pursuant to Internal Revenue Code Section 115. The Academy qualifies for public charity status by meeting the requirements of Internal Revenue Code Sections 509(1) and 170(b)(1)(A)(ii).

The Board of Directors of the Academy has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will continue until the termination or expiration of the charter contract, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives all Academy revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the Academy as compensation for management services rendered. *Revenues – Private Sources – NHA* represent a contribution by NHA for the excess of Academy expenditures over revenue available.

The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy appoints a voting majority of the organization's governing body and is able to impose its will on the organization, or if the organization provided benefits to, or imposes financial burdens on the Academy. The Academy's financial reporting entity is composed of the following:

Primary Government: Aspire Charter Academy, Inc.

In determining the financial reporting entity, the Academy complies with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Academy-wide and Fund Financial Statements** — The Academy-wide financial statements (Statement of Net Position and Statement of Activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Academy's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (a) charges to customers or applicants who purchase use or directly benefit from goods, services, or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported instead as general revenue.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Academy-wide Statements* — The Academy-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been eliminated from the Academy-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position, or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned and unassigned.

*Fund Based Statements* — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue not meeting this definition is classified as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The contracted service fee to NHA is recorded consistent with the recognition of revenue. Interfund transfers are used to subsidize operations of the School Lunch Fund.

*Fund Classification* — The financial activities of the Academy are organized on the basis of funds. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Academy reports the following major governmental funds:

*The General Fund* — The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Funds include the School Lunch Fund and the Textbook Rental Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.

*Estimates* — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

*Cash* — At June 30, 2017, the Academy had deposits with a carrying amount of $540,279 and bank balance of $541,665, of which $291,665 was uninsured and uncollateralized by federal depository insurance. The Academy does not have a deposit policy for custodial credit risk, as it typically does not anticipate holding uninsured deposits based on the nature of its management agreement with NHA. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Unavailable and Unearned Revenue* — Unavailable revenue is reported in connection with receivables for revenue that is not considered available and measurable to liquidate liabilities of the current period. Unearned revenue is reported in connection with funds that have been received for services which have not been performed and is therefore not yet earned. As of June 30, 2017, a deferred inflow for unavailable revenue was recognized for $65,097 and a liability for unearned revenue was recognized for $1,754.

*Contracted Service Fee Payable* — Contracted service fee payable as of June 30, 2017 represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the services agreement.

*Capital Assets* — Capital assets, which include other equipment, are reported in the applicable governmental column in the government-wide financial statements at historical cost. Capital assets are defined by the Academy as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

Other equipment is depreciated using the straight-line method over useful lives of 3–10 years.

*Fund Balance* — Fund balances may be classified as nonspendable, restricted, committed, assigned, or unassigned. The terms nonspendable and restricted are used either to indicate that certain assets do not represent spendable resources available for general educational programs or to earmark a portion of fund balance as legally segregated for a specific future use. The term committed represents amounts that can only be used for the specific purpose determined by a formal resolution of the board. The term assigned is used to classify the fund balance intended to be used by the board, but does not meet the criteria to be restricted or committed. The term unassigned is used for amounts that have not been restricted, committed, or otherwise assigned for future uses. At June 30, 2017, the Academy had $18,453 in committed fund balance and $3,979 in unassigned fund balance. The committed fund balance has been committed by resolutions of the board for student, parent and staff appreciation, staff retreat, athletics, and board training and development.

## 3. BUDGETARY INFORMATION

Annual budgets are adopted on a basis utilizing accounting principles generally accepted in the United States of America and consistent with state law for the general and special revenue funds. The budget document presents information by fund and function. State law requires the Academy to have its budget in place by July 1. The budgets can be amended by the Board of Directors as considered necessary. The budgets were amended to increase budgeted revenues and expenditures by $562,650 and $589,457, respectively. The Academy did not have any significant budget variances.

## 4. DEPOSITS

Deposits, made in accordance with Indiana Code 5-13 with financial institutions in the State of Indiana at June 30, 2017, were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. At June 30, 2017, the Academy had a deposit balance in the amount of $541,665.

## 5. ACCOUNTS RECEIVABLE

The Academy's accounts receivable balance consists of amounts due from the State of Indiana for tuition support related to fiscal year 2013.

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.

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 amounts forgiven under House Bill 1001 were to be applied against the related accounts receivable balance previously recorded by the Academy. The Academy did not receive funds from the Common School Fund and as such, no amount was forgiven by the State.

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. Legal efforts are being made to resolve any outstanding obligations of the State (see Note 10). The Academy has recorded a reduction in state aid in the prior year in the amount of $2,544,248 related to the amount that was not reimbursed through the provisions of House Bill 1001. The balance of $306,939 in account receivable relates to routine amounts due from other state programs and federal programs.

## 6. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2017 and claims did not exceed coverage less retained risk deductible amounts in the past three fiscal years.

## 7. CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities for the year ended June 30, 2017, was as follows:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|---|---|---|---|
| Governmental activities —<br>Other equipment | $ 191,883 | $ - | $ - | $ 191,883 |
| Total accumulated depreciation | (100,295) | (16,539) | - | (116,834) |
| Total governmental activities capital assets, net | $ 91,588 | $ (16,539) | $ - | $ 75,049 |

## 8. CONTINGENCIES

The Academy has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

## 9. OPERATING LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2010 through June 30, 2017. Annual rental payments required by the lease are $912,800 payable in twelve monthly payments of $76,067. This lease is automatically renewed on a year-to-year basis unless a notice of non-renewal is provided by either the Academy or NHA.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2017 through June 30, 2018, at the same rental rate.

## 10. SUBSEQUENT EVENTS

On August 29, 2017, the Academy entered into a lawsuit against the State of Indiana and the Indiana Department of Education. The Academy alleges failure to pay proper tuition support amounts for the January 2013 to June 2013 semester following a change in the Indiana General Assembly's funding scheme for charter schools.

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# REQUIRED SUPPLEMENTAL INFORMATION

## ASPIRE CHARTER ACADEMY, INC.

### REQUIRED SUPPLEMENTAL INFORMATION
### BUDGETARY COMPARISON SCHEDULE
### YEAR ENDED JUNE 30, 2017

| | Original Budget | Final Amended Budget | Actual | (Under) Over Final Budget |
|---|---|---|---|---|
| REVENUES: | | | | |
| State Aid | $ 4,987,553 | $ 5,078,370 | $ 5,042,042 | $ (36,328) |
| Other State Sources | 263,730 | 590,345 | 567,670 | (22,675) |
| Federal Sources | 1,548,472 | 1,949,137 | 1,713,400 | (235,737) |
| Private Sources | - | 15,800 | 19,134 | 3,334 |
| Private Sources - NHA | 271,247 | - | - | - |
| Total Revenues | 7,071,002 | 7,633,652 | 7,342,246 | (291,406) |
| EXPENDITURES - Contracted Service Fee | 7,071,002 | 7,660,459 | 7,347,266 | (313,193) |
| NET CHANGE IN FUND BALANCE | - | (26,807) | (5,020) | 21,787 |
| FUND BALANCE - Beginning of year | - | 27,452 | 27,452 | - |
| FUND BALANCE - End of year | $ - | $ 645 | $ 22,432 | $ 21,787 |

# ADDITIONAL INFORMATION

## ASPIRE CHARTER ACADEMY, INC.

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS AND
FEDERAL GRANT ACTIVITY INCLUDED IN GENERAL FUND
YEAR ENDED JUNE 30, 2017

| | Nonmajor Governmental Funds | | | Federal Grant Activity Included in General Fund | | |
|---|---|---|---|---|---|---|
| | School Lunch | Textbook Rental | Total | Title I | Title IIA | Total |
| Revenue: | | | | | | |
| Private sources | $ 137 | $ - | $ 137 | $ - | $ - | $ - |
| State sources | - | 52,319 | 52,319 | - | - | - |
| Federal sources | 470,421 | - | 470,421 | 1,113,404 | 129,575 | 1,242,979 |
| Total Revenue | 470,558 | 52,319 | 522,877 | 1,113,404 | 129,575 | 1,242,979 |
| Expenditures - Contracted service fee | 490,754 | 52,319 | 543,073 | 1,113,404 | 129,575 | 1,242,979 |
| REVENUES UNDER EXPENDITURES | (20,196) | - | (20,196) | - | - | - |
| Other financing sources - Transfers in | 20,196 | - | 20,196 | - | - | - |
| NET CHANGE IN FUND BALANCE | - | - | - | - | - | - |
| Fund Balance - beginning | - | - | - | - | - | - |
| Fund Balance - ending | $ - | $ - | $ - | $ - | $ - | $ - |

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Aspire Charter Academy, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Aspire Charter Academy, Inc. (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated November 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Aspire Charter Academy, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and the Board of Directors
Aspire Charter Academy, Inc.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Aspire Charter Academy, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

November 20, 2017

# SUPPLEMENTAL INFORMATION

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Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Directors
Aspire Charter Academy, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Aspire Charter Academy, Inc.'s (the "Academy") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2017. Aspire Charter Academy, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Aspire Charter Academy, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Aspire Charter Academy, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Aspire Charter Academy, Inc.'s compliance.

To the Board of Directors
Aspire Charter Academy, Inc.

***Opinion on Each Major Federal Program***

In our opinion, Aspire Charter Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

**Report on Internal Control Over Compliance**

Management of Aspire Charter Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aspire Charter Academy, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

November 20, 2017

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2017

| Program Title/Project Number/Subrecipient Name | Grant/Project Number | CFDA Number | Expenditures | Current Year Cash Transferred to Subrecipients |
|---|---|---|---|---|
| Clusters: | | | | |
| Child Nutrition Cluster - U.S. Department of Agriculture - | | | | |
| Passed through the Indiana Department of Education: | | | | |
| Cash Assistance: | | | | |
| National School Lunch Program 2016-17 | N/A | 10.555 | $ 345,280 | $ - |
| National School Breakfast Program 2016-17 | N/A | 10.553 | 125,141 | - |
| Total Child Nutrition Cluster | | | 470,421 | - |
| Other Federal Awards: | | | | |
| Passed through the Indiana Department of Education: | | | | |
| Title I Grants to Local Educational Agencies: | | | | |
| Title I Part A 1516 | 16-9685 | 84.010 | 185,193 | - |
| Title I Part A 1617 | 17-9685 | 84.010 | 895,643 | - |
| Total Title I Grants to Local Educational Agencies | | 84.010 | 1,080,836 | - |
| Title II - Improving Teacher Quality: | | | | |
| Title II 1415 | N/A | 84.367 | 116,196 | - |
| Title II 1516 | S367A150015 | 84.367 | 11,014 | - |
| Title II 1617 | S367A160013 | 84.367 | 65,098 | - |
| Total Title II - Improving Teacher Quality: | | 84.367 | 192,308 | - |
| Total noncluster programs passed through the Indiana Department of Education | | | 1,273,144 | - |
| Total Federal Awards | | | $ 1,743,565 | $ - |

See Notes to Schedule of Expenditures of Federal Awards.

## Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

| | | |
|---|---|---|
| Revenue from federal sources - As reported on financial statements (includes all funds) | $ | 1,713,400 |
| Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds | | 65,097 |
| Revenue reported in the governmental funds as available and measurable - Reported in the statement of activities in prior year | | (34,932) |
| Federal expenditures per the schedule of expenditures of federal awards | $ | 1,743,565 |

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Aspire Charter Academy, Inc. (the "Academy") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Aspire Charter Academy, Inc., it is not intended to and does not present the financial position, changes in net position or cash flows of Aspire Charter Academy, Inc.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The Academy has elected not to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

### Section I - Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Noncompliance material to financial statements noted? ____ Yes __X__ No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? ____ Yes __X__ No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 84.010 | Title I Grants to Local Educational Agencies |

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? __X__ Yes ____ No

### Section II - Financial Statement Audit Findings

None

### Section III - Federal Program Audit Findings

None

## IV. STATE FINDINGS AND QUESTIONED COSTS SECTION

None

## ASPIRE CHARTER ACADEMY, INC.

**EXIT CONFERENCE FOR STATE COMPLIANCE**
**FOR THE YEAR ENDED JUNE 30, 2017**

The content of this report was discussed on October 27, 2017, with Ann Strahota, Director of Audit.

The Bloomington Project School

# THE BLOOMINGTON PROJECT SCHOOL, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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*Independent Auditors' Report*

The Board of Directors
The Bloomington Project School, Inc.

We have audited the accompanying financial statements of The Bloomington Project School, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets (deficit), functional expenses, 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.

***Auditors' 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 of 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 auditors' 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 auditors consider 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 The Bloomington Project School, Inc. as of June 30, 2017 and 2016, and the changes in its net assets (deficit), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

December 5, 2017
Indianapolis, Indiana

# THE BLOOMINGTON PROJECT SCHOOL, INC.

## STATEMENTS OF FINANCIAL POSITION

**June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 236,125 | $ 80,484 |
| Grants receivable | 25,446 | 6,066 |
| Prepaid expenses | 808 | 7,344 |
| *Total current assets* | 262,379 | 93,894 |
| **PROPERTY AND EQUIPMENT** | | |
| Buildings and improvements | 2,222,431 | 2,222,431 |
| Furniture and equipment | 480,380 | 478,591 |
| Textbooks | 77,316 | 77,316 |
| Less: accumulated depreciation | (1,119,601) | (1,041,821) |
| *Property and equipment, net* | 1,660,526 | 1,736,517 |
| **OTHER ASSETS** | | |
| Security deposit | 10,000 | 10,000 |
| **TOTAL ASSETS** | $ 1,932,905 | $ 1,840,411 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 96,121 | $ 51,946 |
| Accounts payable | 23,140 | 30,109 |
| Accrued expenses | 108,746 | 100,266 |
| Refundable advances | 22,698 | - |
| *Total current liabilities* | 250,705 | 182,321 |
| **LONG-TERM LIABILITIES** | | |
| Deferred rent payable | 20,250 | 30,375 |
| Notes payable, net of current portion | 1,602,014 | 1,707,524 |
| *Total long-term liabilities* | 1,622,264 | 1,737,899 |
| *Total liabilities* | 1,872,969 | 1,920,220 |
| **NET ASSETS (DEFICIT)** | 59,936 | (79,809) |
| **TOTAL LIABILITIES AND NET ASSETS (DEFICIT)** | $ 1,932,905 | $ 1,840,411 |

# THE BLOOMINGTON PROJECT SCHOOL, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 | | |
|---|---|---|---|---|
| | Unrestricted | Unrestricted | Temporarily Restricted | Total |
| **REVENUE AND SUPPORT** | | | | |
| State education support | $ 1,781,519 | $ 1,708,649 | $ - | $ 1,708,649 |
| Grant revenue | 338,083 | 355,050 | - | 355,050 |
| Student fees | 84,630 | 84,717 | - | 84,717 |
| Contributions | 120,408 | 137,069 | - | 137,069 |
| Other income | 21,578 | 43,263 | - | 43,263 |
| *Total revenue and support* | 2,346,218 | 2,328,748 | - | 2,328,748 |
| **EXPENSES** | | | | |
| Program services | 1,597,474 | 1,659,057 | - | 1,659,057 |
| Management and general | 608,999 | 548,078 | - | 548,078 |
| *Total expenses* | 2,206,473 | 2,207,135 | - | 2,207,135 |
| **CHANGE IN NET ASSETS** | 139,745 | 121,613 | - | 121,613 |
| **NET ASSETS (DEFICIT), BEGINNING OF YEAR** | (79,809) | (201,422) | 91,390 | (110,032) |
| **DISTRIBUTION TO FOUNDATION** | - | - | (91,390) | (91,390) |
| **NET ASSETS (DEFICIT), END OF YEAR** | $ 59,936 | $ (79,809) | $ - | $ (79,809) |

# THE BLOOMINGTON PROJECT SCHOOL, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 977,664 | $ 254,543 | $ 1,232,207 | $ 891,822 | $ 222,243 | $ 1,114,065 |
| Employee benefits | 209,795 | 69,408 | 279,203 | 229,281 | 89,117 | 318,398 |
| Staff development | 7,283 | - | 7,283 | 6,332 | - | 6,332 |
| Professional services | 21,049 | 52,395 | 73,444 | 56,797 | 46,260 | 103,057 |
| Repairs and maintenance | 39,277 | - | 39,277 | 22,393 | - | 22,393 |
| Authorizer oversight fees | - | 42,434 | 42,434 | - | 41,201 | 41,201 |
| Food costs | 48,115 | - | 48,115 | 58,775 | - | 58,775 |
| Transportation | 6,047 | - | 6,047 | 39,775 | - | 39,775 |
| Equipment | 263 | - | 263 | 42,945 | - | 42,945 |
| Classroom, kitchen, and office supplies | 35,050 | 4,717 | 39,767 | 34,556 | 2,576 | 37,132 |
| Occupancy | 150,803 | - | 150,803 | 161,451 | - | 161,451 |
| Depreciation | 77,780 | - | 77,780 | 81,806 | - | 81,806 |
| Interest | - | 104,152 | 104,152 | - | 113,338 | 113,338 |
| Insurance | - | 14,858 | 14,858 | - | 17,957 | 17,957 |
| Other | 24,348 | 66,492 | 90,840 | 33,124 | 15,386 | 48,510 |
| *Total functional expenses* | $ 1,597,474 | $ 608,999 | $ 2,206,473 | $ 1,659,057 | $ 548,078 | $ 2,207,135 |

See independent auditors' report and accompanying notes to the financial statements

# THE BLOOMINGTON PROJECT SCHOOL, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 139,745 | $ 121,613 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 77,780 | 81,806 |
| Changes in certain assets and liabilities: | | |
| Grants receivable | (19,380) | (1,241) |
| Prepaid expenses | 6,536 | - |
| Accounts payable | (6,969) | 363 |
| Accrued expenses | 8,480 | (169,082) |
| Refundable advances | 22,698 | - |
| Deferred rent payable | (10,125) | (10,125) |
| *Net cash provided by operating activities* | 218,765 | 23,334 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (1,789) | - |
| Distribution to Foundation | - | (91,390) |
| *Net cash used in investing activities* | (1,789) | (91,390) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from note payable | - | 65,200 |
| Principal repayment of notes payable | (61,335) | (74,085) |
| *Net cash used in financing activities* | (61,335) | (8,885) |
| **NET CHANGE IN CASH** | 155,641 | (76,941) |
| **CASH, BEGINNING OF YEAR** | 80,484 | 157,425 |
| **CASH, END OF YEAR** | $ 236,125 | $ 80,484 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 97,062 | $ 106,248 |

See independent auditors' report and accompanying notes to the financial statements

**THE BLOOMINGTON PROJECT SCHOOL, INC.**
**NOTES TO THE FINANCIAL STATEMENTS**
**For the Years Ended June 30, 2017 and 2016**

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The Bloomington Project School, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates as a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University.

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.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.

- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

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 monthly installments in July through June coinciding with 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.

Contributions – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor 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 statements of activities as net assets released from restriction.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $500 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:

| | |
|---|---|
| Buildings and improvements | 30 years |
| Furniture and equipment | 3 to 5 years |
| Textbooks | 4 years |

Taxes on Income – The Bloomington Project School, 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

Reclassifications – Certain figures for 2016 that were previously reported have been reclassified for comparative purposes. These reclassifications had no impact on the previously reported change in net assets.

Subsequent Events – The School evaluated subsequent events through December 5, 2017, 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.

## NOTE 2 - REFUNDABLE ADVANCE

The School has been awarded a grant from the Lilly Foundation, Inc. for the purpose of establishing comprehensive counseling services for students. The grant must be utilized for its intended purpose no later than December 31, 2017, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statements of financial position and had a balance of $22,698 at June 30, 2017.

## NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to Indiana Finance Authority | $ 470,778 | $ 526,353 |
| Note payable to IFF | 1,160,000 | 1,160,000 |
| Note payable to Bloomington Urban Enterprise Association | 5,417 | 7,917 |
| Common School Fund Loan | 61,940 | 65,200 |
| | 1,698,135 | 1,759,470 |
| Less current portion | (96,121) | (51,946) |
| Long-term portion | $ 1,602,014 | $ 1,707,524 |

Indiana Finance Authority Note Payable - The note payable to Indiana Finance Authority is payable in quarterly installments of $33,775, including interest at 5.5% per annum. The loan was funded through the sale of Qualified School Construction Bonds, which provide for the interest to be subsidized by the Federal Government. The loan is subordinate to the obligation to IFF.

IFF Note Payable - The note payable to IFF is payable in monthly installments of $10,184, including interest at 6.25% per annum, with the principal balance due at the maturity date of August 1, 2032. The note is secured by a leasehold mortgage, and furniture and equipment.

Bloomington Urban Enterprise Association Note Payable - The note payable to Bloomington Urban Enterprise Association is payable in monthly installments of $208, with the unpaid balance due on August 1, 2019. The note is unsecured and non-interest bearing.

Common School Fund Loan - The note payable to the Indiana Common School Fund is payable in semi-annual installments of $3,260 from January 2017 to July 2026, with interest at 1% per annum.

Principal maturities of notes payable are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 96,121 |
| 2019 | 106,601 |
| 2020 | 110,643 |
| 2021 | 116,736 |
| 2022 | 123,658 |
| Thereafter | 1,144,376 |
| Total | $ 1,698,135 |

## NOTE 4 - RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions that have been received but not expended for the identified purposes or have been donated for use in future periods. At the beginning of fiscal year 2016, temporarily restricted net assets totaled $91,390, which were purpose-restricted for contribution to the School Project Foundation, Inc. The School made this contribution in 2016, thereby releasing the funds from restriction. There were no restricted net assets as of June 30, 2017, and no funds were released from restriction in fiscal year 2017.

## NOTE 5 - LEASES

The School leases its school facility under an operating lease. The lease expires June 30, 2019 and requires annual rent payments of $88,125. The School has the option to renew the lease for four additional five-year periods. In the initial stages of the lease, the School was allowed certain rent concessions and has, therefore, recorded a deferred credit to reflect the excess of rent expense over cash payments for that period of time. The School also rents certain items of office equipment under operating leases.

Expense under operating leases for the years ended June 30, 2017 and 2016 was $88,810 and $92,444, respectively. Future minimum lease obligations for non-cancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 92,950 |
| 2019 | | 88,125 |

## NOTE 6 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. For the year ended June 30, 2017, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 7.25% for other employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2016 (the latest year reported), TRF and PERF were more than 80% funded.

In lieu of TRF, teaching faculty can elect benefits under a 403(b) plan, where the School contributes 7.5% of compensation. Retirement plan expense was $61,256 and $91,358 for the years ended June 30, 2017 and 2016, respectively. The 2017 expense is net of a 403(b) forfeiture of $32,675 applied to the School's 2017 contribution.

## NOTE 7 - 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. Payments under this charter agreement were $42,434 and $41,201 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2019, and is renewable thereafter by mutual consent.

## NOTE 8 - RISKS AND UNCERTAINTIES

The School provides education instruction services to families residing in Monroe 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 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, 2017, substantially all of the receivable balance was due from the State of Indiana.

## NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the education activities have been summarized on a functional basis in the statement of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

Canaan Community Academy

# FRIENDS OF CANAAN, INC.
# d/b/a CANAAN COMMUNITY ACADEMY

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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Donovan CPAs

*Independent Auditors' Report*

The Board of Directors
Friends of Canaan, Inc.

***Report on the Financial Statements***

We have audited the accompanying financial statements of Friends of Canaan, Inc. d/b/a Canaan Community Academy, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

***Auditors' 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 auditors' 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 auditors consider 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 Friends of Canaan, Inc. d/b/a Canaan Community Academy as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

September 29, 2017
Indianapolis, Indiana

# FRIENDS OF CANAAN, INC.
# d/b/a CANAAN COMMUNITY ACADEMY
## STATEMENTS OF FINANCIAL POSITION
### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 158,950 | $ 225,864 |
| Grants receivable | 1,553 | 3,790 |
| Prepaid expenses | 20,450 | 2,907 |
| *Total current assets* | 180,953 | 232,561 |
| **PROPERTY AND EQUIPMENT** | | |
| Furniture and equipment | 269,805 | 265,840 |
| Textbooks | 87,548 | 81,585 |
| Vehicles | 12,300 | 9,100 |
| Less: accumulated depreciation | (326,643) | (260,867) |
| *Property and equipment, net* | 43,010 | 95,658 |
| **TOTAL ASSETS** | $ 223,963 | $ 328,219 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 63,825 | $ 43,571 |
| Current portion of notes payable | 12,956 | 47,027 |
| Refundable advances | 14,198 | 9,758 |
| *Total current liabilities* | 90,979 | 100,356 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | 4,459 | 17,417 |
| *Total liabilities* | 95,438 | 117,773 |
| **UNRESTRICTED NET ASSETS** | 128,525 | 210,446 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 223,963 | $ 328,219 |

See independent auditors' report and accompanying notes to the financial statements

## FRIENDS OF CANAAN, INC.
## d/b/a CANAAN COMMUNITY ACADEMY
### STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 619,547 | $ 755,753 |
| Grant revenue | 135,480 | 156,128 |
| Student fees | 25,178 | 34,209 |
| Contributions | 25,066 | 9,440 |
| Other income | 22,320 | 25,519 |
| *Total revenue and support* | 827,591 | 981,049 |
| **EXPENSES** | | |
| Program services | 747,083 | 802,484 |
| Management and general | 162,429 | 156,530 |
| *Total expenses* | 909,512 | 959,014 |
| **CHANGE IN NET ASSETS** | (81,921) | 22,035 |
| **NET ASSETS, BEGINNING OF YEAR** | 210,446 | 188,411 |
| **NET ASSETS, END OF YEAR** | $ 128,525 | $ 210,446 |

See independent auditors' report and accompanying notes to the financial statements

# FRIENDS OF CANAAN, INC.
## d/b/a CANAAN COMMUNITY ACADEMY
### STATEMENTS OF FUNCTIONAL EXPENSES
### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 429,253 | $ 43,572 | $ 472,825 | $ 383,588 | $ 42,336 | $ 425,924 |
| Employee benefits | 79,311 | 12,485 | 91,796 | 82,337 | 9,698 | 92,035 |
| Professional services | 61,341 | 57,134 | 118,475 | 55,490 | 46,070 | 101,560 |
| Depreciation | 65,776 | - | 65,776 | 90,910 | - | 90,910 |
| Contracted transportation services | 465 | - | 465 | 82,895 | - | 82,895 |
| Classroom, kitchen, and office supplies | 28,900 | 6,685 | 35,585 | 30,629 | 5,122 | 35,751 |
| Food costs | 23,957 | - | 23,957 | 29,203 | - | 29,203 |
| Insurance | - | 20,917 | 20,917 | - | 29,172 | 29,172 |
| Occupancy | 18,948 | - | 18,948 | 21,467 | - | 21,467 |
| Authorizer oversight fees | - | 13,356 | 13,356 | - | 16,168 | 16,168 |
| Equipment | 6,282 | - | 6,282 | 6,029 | - | 6,029 |
| Property rental and maintenance | 16,092 | - | 16,092 | 4,923 | - | 4,923 |
| Staff development | 11,040 | - | 11,040 | 4,634 | - | 4,634 |
| Interest | - | 2,018 | 2,018 | - | 3,943 | 3,943 |
| Other | 5,718 | 6,262 | 11,980 | 10,379 | 4,021 | 14,400 |
| *Total functional expenses* | $ 747,083 | $ 162,429 | $ 909,512 | $ 802,484 | $ 156,530 | $ 959,014 |

See independent auditors' report and accompanying notes to the financial statements

# FRIENDS OF CANAAN, INC.
# d/b/a CANAAN COMMUNITY ACADEMY
## STATEMENTS OF CASH FLOWS
### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (81,921) | $ 22,035 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 65,776 | 90,910 |
| Changes in certain assets and liabilities: | | |
| Grants receivable | 2,237 | (1,555) |
| Prepaid expenses | (17,543) | 1,359 |
| Accounts payable and accrued expenses | 20,254 | (4,940) |
| Refundable advances | 4,440 | (8,724) |
| *Net cash provided by (used in) operating activities* | (6,757) | 99,085 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (13,128) | (26,328) |
| **FINANCING ACTIVITIES** | | |
| Principal repayments of notes payable | (47,029) | (45,102) |
| **NET CHANGE IN CASH** | (66,914) | 27,655 |
| **CASH, BEGINNING OF YEAR** | 225,864 | 198,209 |
| **CASH, END OF YEAR** | $ 158,950 | $ 225,864 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 2,018 | $ 3,943 |

See independent auditors' report and accompanying notes to the financial statements

# FRIENDS OF CANAAN, INC.
# d/b/a CANAAN COMMUNITY ACADEMY
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Friends of Canaan, Inc. d/b/a Canaan Community Academy (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 Ball State University.

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.

Grants Receivable – Grants 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.

Revenue Recognition – Revenues primarily 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 is paid in monthly installments in July through June coinciding with 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.

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 $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:

| | |
|---|---|
| Furniture and equipment | 3 - 4 years |
| Textbooks | 4 years |
| Vehicles | 5 years |

Taxes on Income – Friends of Canaan, Inc. has received a determination from the U.S. Internal Revenue Service 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 years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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. Tax years ended after 2013 are open to audit for both federal and state purposes.

<u>Contributions</u> – Contributions received are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

<u>Subsequent Events</u> – The School evaluated subsequent events through September 29, 2017, 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.

**NOTE 2 - DONATED FACILITIES**

The School leases its facility under an operating lease with Shelby Township. Shelby Township is providing a donation to the School by allowing it to occupy the government-owned building for an annual lease payment of $1. Even though reporting donated facilities as items of revenue and expense is called for in certain circumstances, the Internal Revenue Service does not permit the inclusion of those amounts on the Form 990. The fair market value of in-kind contributions has not been determined for the years ended June 30, 2017 and 2016, and the fair market value of the premises are not reported in the accompanying financial statements. The School is responsible for all repairs, maintenance, utilities, and insurance. The lease term ends in February 2018.

**NOTE 3 - RETIREMENT PLAN**

The School offers retirement benefits to its employees through both 403(b) and 401(a) defined contribution retirement plans provided by MetLife. The 403(b) plan is funded solely by employee contributions. The School contributes 7.5% of each employee's salary for all full-time employees to the 401(a) plan. Retirement plan expense, net of forfeitures, was $21,064 and $19,991 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 4 - 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 payments received. The charter remains in effect until June 30, 2022, and is renewable thereafter by mutual consent. Payments under this agreement were $13,356 and $16,168 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to IFF, payable $1,125 monthly including interest at 4.75% per annum, maturing in October 2018, secured by all furniture, fixtures, and equipment | $ 17,415 | $ 29,772 |
| Unsecured note payable to Elma Schafer, payable $1,476 monthly including interest at 4.0% per annum, paid off in full during 2017 | - | 17,336 |
| Unsecured note payable to LaVonna Risk, payable $1,476 monthly including interest at 4.0% per annum, paid off in full during 2017 | - | 17,336 |
| | 17,415 | 64,444 |
| Less: current portion | (12,956) | (47,027) |
| Long-term portion | $ 4,459 | $ 17,417 |

Principal maturities of notes payable are scheduled as follows for the years ending June 30,

| | |
|---|---|
| 2018 | $ 12,956 |
| 2019 | 4,459 |
| | $ 17,415 |

## NOTE 6 - RISKS AND UNCERTAINTIES

The School provides education services to families residing in Jefferson 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 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, 2017 and 2016, substantially all of the accounts receivable balance was due from the State of Indiana.

## NOTE 7 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services.

# FRIENDS OF CANAAN, INC.
# D/B/A CANAAN COMMUNITY ACADEMY
## OTHER REPORT
## For the Year Ended June 30, 2017

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

Supplemental Audit Report of Friends of Canaan, Inc. d/b/a Canaan Community Academy

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*.

SUPPLEMENTAL AUDIT REPORT
OF

# FRIENDS OF CANAAN, INC.
# d/b/a CANAAN COMMUNITY ACADEMY

JEFFERSON COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# FRIENDS OF CANAAN, INC.
# d/b/a CANAAN COMMUNITY ACADEMY
## JEFFERSON COUNTY, INDIANA
## School Officials
## July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | David Herring | 07/01/16 – 06/30/17 |
| Lead Academic Officer | Donna Taylor | 07/01/16 – 06/30/17 |
| School Treasurer | Donna Taylor | 07/01/16 – 06/30/17 |

Donovan CPAs

The Board of Directors
Friends of Canaan, Inc.

We have audited the financial statements of Friends of Canaan, Inc. d/b/a Canaan Community Academy (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated September 29, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
September 29, 2017

**RECEIPTS AND DEPOSITS**

Our testing of receipts and deposits revealed that the School was not depositing money in a timely manner. Of the 25 receipts tested, three deposits occurred more than one week after the date of the cash receipt.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

# FRIENDS OF CANAAN, INC.
# d/b/a CANAAN COMMUNITY ACADEMY
## JEFFERSON COUNTY, INDIANA
## Exit Conference
## July 1, 2016 to June 30, 2017

The contents of this report were discussed on September 29, 2017 with Kenneth L. Miller, Chairman of the Finance Committee and David Herring, President of the Board of Directors. The Official Response has been made a part of this report and may be found on page 5.

Canaan Community Academy
8775 N. Canaan Main Street
P.O. Box 20
Canaan, IN. 47224
(812) 839-0003
Donna L. Taylor, CAO

September 29, 2017

**RE: Managements Response to the Findings in Our SBOA Report**

This letter is in response to the findings from Donovan when completing the 2016/2017 Fiscal Year Audit for Canaan Community Academy.

1. **Timely Deposit of Money:**

   We understand that one finding was the School was not depositing money in a timely manner. Of the 25 receipts tested, three deposits occurred more than one week after the date of the cash receipt. We understand that timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions.

   **Explanation:** The nearest bank is 15 miles from Canaan Community Academy. We sometimes do not receive large amounts of money a daily basis, which makes it a little cumbersome to make small amount deposits on a daily basis. We try to make bank deposits every Friday, but sometimes parents ask us to hold checks until funds can be deposited into their bank account. We also hold fundraisers in which people may write checks at the beginning of the fundraiser but the checks not be deposited into the CCA bank account until the end of the fundraiser.

   **Remedy:** In order to remedy the finding of the depositing of funds not being in a timely manner, we will begin to make deposit on a regular twice weekly basis, within the next business day of the date of the written receipt. We understand that to comply with the requirements regarding bank deposits set by the state of Indiana, we must make timely bank deposits. Deposits will be made at a minimum of a twice weekly basis.

Thank you for your understanding and cooperation of the audit findings during the 2016/2017 Audit of Canaan Community Academy. If you have any other questions or concerns regarding the audit of Canaan Community Academy, please do not hesitate to contact the school at 812-839-0003.

Sincerely,

Donna L. Taylor

Donna L. Taylor
Chief Administrative Officer

Community Montessori, Inc.

# COMMUNITY MONTESSORI, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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Donovan CPAs

*Independent Auditors' Report*

The Board of Directors
Community Montessori, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Community Montessori, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Community Montessori, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
October 17, 2017

# COMMUNITY MONTESSORI, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 2,639,763 | $ 2,531,899 |
| Bank certificate of deposit | - | 226,882 |
| Investments | 503,965 | - |
| Accounts receivable, net of allowance | 19,608 | 11,725 |
| Grants receivable | - | 3,342 |
| Prepaid expenses | 34,186 | 22,291 |
| *Total current assets* | 3,197,522 | 2,796,139 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 150,296 | 150,296 |
| Buildings and improvements | 11,390,788 | 11,390,788 |
| Furniture and equipment | 175,982 | 175,982 |
| Less: accumulated depreciation | (3,045,370) | (2,755,733) |
| *Property and equipment, net* | 8,671,696 | 8,961,333 |
| **TOTAL ASSETS** | $ 11,869,218 | $ 11,757,472 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 245,546 | $ 214,195 |
| Accounts payable and accrued expenses | 339,115 | 269,291 |
| Refundable advance | 28,374 | - |
| Deferred revenue | 202,201 | 165,113 |
| *Total current liabilities* | 815,236 | 648,599 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | 5,810,314 | 6,129,866 |
| Less: unamortized debt issuance costs | (51,836) | - |
| *Total long-term liabilities, net of unamortized debt issuance costs* | 5,758,478 | 6,129,866 |
| *Total liabilities* | 6,573,714 | 6,778,465 |
| **NET ASSETS** | | |
| Unrestricted | 5,226,606 | 4,971,306 |
| Temporarily restricted | 68,898 | 7,701 |
| *Total net assets* | 5,295,504 | 4,979,007 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 11,869,218 | $ 11,757,472 |

See independent auditors' report and accompanying notes to the financial statements.

# COMMUNITY MONTESSORI, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| **REVENUE AND SUPPORT** | | | | | | |
| State education support | $ 3,489,510 | $ - | $ 3,489,510 | $ 3,444,292 | $ - | $ 3,444,292 |
| Program fees | 542,483 | - | 542,483 | 483,712 | - | 483,712 |
| Grant revenue | 140,101 | - | 140,101 | 123,728 | - | 123,728 |
| Student fees | 139,910 | - | 139,910 | 143,450 | - | 143,450 |
| Contributions | 16,054 | 62,066 | 78,120 | 25,479 | 1,296 | 26,775 |
| Fundraising | 56,608 | - | 56,608 | 55,454 | - | 55,454 |
| Interest | 7,801 | - | 7,801 | 6,626 | - | 6,626 |
| Other | 26,005 | - | 26,005 | 15,502 | - | 15,502 |
| Net assets released from restrictions | 869 | (869) | - | 6,626 | (6,626) | - |
| *Total revenue and support* | 4,419,341 | 61,197 | 4,480,538 | 4,304,869 | (5,330) | 4,299,539 |
| **EXPENSES** | | | | | | |
| Program services | 3,506,228 | - | 3,506,228 | 3,103,321 | - | 3,103,321 |
| Management and general | 606,195 | - | 606,195 | 532,817 | - | 532,817 |
| Fundraising | 51,618 | - | 51,618 | 56,450 | - | 56,450 |
| *Total expenses* | 4,164,041 | - | 4,164,041 | 3,692,588 | - | 3,692,588 |
| **CHANGE IN NET ASSETS** | 255,300 | 61,197 | 316,497 | 612,281 | (5,330) | 606,951 |
| **NET ASSETS, BEGINNING OF YEAR** | 4,971,306 | 7,701 | 4,979,007 | 4,359,025 | 13,031 | 4,372,056 |
| **NET ASSETS, END OF YEAR** | $ 5,226,606 | $ 68,898 | $ 5,295,504 | $ 4,971,306 | $ 7,701 | $ 4,979,007 |

See independent auditors' report and accompanying notes to the financial statements.

**COMMUNITY MONTESSORI, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| **FUNCTIONAL EXPENSES** | | | | | | | | |
| Salaries and wages | $ 1,970,238 | $ 356,760 | $ - | $ 2,326,998 | $ 1,726,254 | $ 291,734 | $ - | $ 2,017,988 |
| Employee benefits | 430,791 | 62,950 | - | 493,741 | 395,863 | 57,495 | - | 453,358 |
| Staff development and recruitment | 37,941 | - | - | 37,941 | 27,934 | - | - | 27,934 |
| Professional services | 84,265 | 3,492 | - | 87,757 | 65,112 | 9,476 | - | 74,588 |
| Program expenses | 61,415 | - | - | 61,415 | 56,927 | - | - | 56,927 |
| Authorizer oversight fees | - | 82,731 | - | 82,731 | - | 80,950 | - | 80,950 |
| Dues, licenses and subscriptions | - | 30,377 | - | 30,377 | - | 21,040 | - | 21,040 |
| Advertising | - | 1,310 | - | 1,310 | - | 3,530 | - | 3,530 |
| Travel | - | 2,926 | - | 2,926 | - | 2,552 | - | 2,552 |
| Information technology | 114,502 | - | - | 114,502 | 81,532 | - | - | 81,532 |
| Minor equipment | 25,699 | - | - | 25,699 | 11,528 | - | - | 11,528 |
| Supplies | 90,226 | 16,034 | - | 106,260 | 67,456 | 12,927 | - | 80,383 |
| Occupancy | 201,304 | - | - | 201,304 | 155,488 | - | - | 155,488 |
| Depreciation | 289,638 | - | - | 289,638 | 292,730 | - | - | 292,730 |
| Amortization | 205 | - | - | 205 | - | - | - | - |
| Interest | 200,004 | - | - | 200,004 | 222,497 | - | - | 222,497 |
| Insurance | - | 18,512 | - | 18,512 | - | 27,408 | - | 27,408 |
| Fundraising | - | - | 51,618 | 51,618 | - | - | 56,450 | 56,450 |
| Other | - | 31,103 | - | 31,103 | - | 25,705 | - | 25,705 |
| *Total functional expenses* | $ 3,506,228 | $ 606,195 | $ 51,618 | $ 4,164,041 | $ 3,103,321 | $ 532,817 | $ 56,450 | $ 3,692,588 |

See independent auditors' report and accompanying notes to the financial statements.

# COMMUNITY MONTESSORI, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 316,497 | $ 606,951 |
| Adjustments to reconcile change in net assets | | |
| to net cash flows provided by operating activities: | | |
| Depreciation | 289,638 | 292,730 |
| Amortization | 205 | - |
| Change in certain assets and liabilities: | | |
| Accounts receivable | (7,883) | 2,718 |
| Grants receivable | 3,342 | 7,235 |
| Prepaid expenses | (11,895) | (1,011) |
| Accounts payable and accrued expenses | 69,824 | (5,617) |
| Refundable advances | 28,374 | - |
| Deferred revenue | 37,088 | (11,319) |
| *Net cash provided by operating activities* | 725,190 | 891,687 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | - | (19,462) |
| Acquisition of investments | (277,083) | (1,134) |
| *Net cash used in investing activities* | (277,083) | (20,596) |
| **FINANCING ACTIVITIES** | | |
| Principal repayment of notes payable | (288,201) | (521,737) |
| Payment of debt issuance costs | (52,041) | - |
| *Net cash used in financing activities* | (340,242) | (521,737) |
| **NET CHANGE IN CASH** | 107,864 | 349,354 |
| **CASH, BEGINNING OF YEAR** | 2,531,899 | 2,182,545 |
| **CASH, END OF YEAR** | $ 2,639,763 | $ 2,531,899 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 200,924 | $ 231,933 |

See independent auditors' report and accompanying notes to the financial statements.

# COMMUNITY MONTESSORI, INC.
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Community Montessori, 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 is sponsored by Ball State University. The School also provides an early childhood education program for children ages three and four on a fee basis. For 2016-2017 school year, the School served approximately 615 students in preschool through high school.

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.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.

- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

Revenue Recognition – Revenues primarily 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 publicly funded schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the 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.

Program fees and materials and supplies fees are paid by families based on the number of children enrolled, and are recognized in the academic school year to which the payments pertain.

Contributions – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor 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 and change in net assets as net assets released from restrictions.

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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Grants and Accounts Receivable – Grants 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 account is deemed necessary with regard to grants receivables. Accounts receivable relate primarily to program fees collected annually from the School's students. These accounts receivable are reviewed for collectability annually. The accompanying financial statements reflect an allowance for doubtful accounts of $12,729 and $15,203 as of June 30, 2017 and 2016, respectively, relating to program fees.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

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 $5,000 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:

| | |
|---|---|
| Buildings and improvements | 40 years |
| Furniture and equipment | 3 to 7 years |

Deferred Revenue – Deferred revenue consists of early education program fee deposits and materials and supplies fee deposits received as part of the enrollment process for the subsequent academic school year.

Debt Issuance Costs – Debt issuance costs include expenses incurred as part of the July 2016 refinancing of long-term debt. Total costs incurred was $52,041. Amortization is provided on a straight-line basis over the term of the related notes payable. Accumulated amortization as of June 30, 2017 was $205. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs is presented as a direct deduction from the carrying amount of the related debt liability.

Taxes on Income – Community Montessori, Inc. has received a determination from the U.S. Internal Revenue Service 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 exempt purpose. For the years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued - 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 after 2013 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through October 17, 2017 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.

## NOTE 2 - LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding is paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July 2013 to December 2013 was suspended. This elimination of funding resulted in a non-operating loss of $1,477,941.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School applied for and received repayment of its indebtedness under these obligations as of June 30, 2013. The repayment of debt resulted in non-operating income of $861,897 comprised of the following:

| | | |
|---|---|---|
| Repayment of Common School Fund loans | $ | 733,133 |
| Repayment of accrued interest on Common School Fund loans | | 128,764 |
| | $ | 861,897 |

The School believes that it has been adversely affected by the legislative changes relating to the elimination of funding, and is pursuing relief through its elected representatives and the Indiana Department of Education. The prospect for success is unknown as of June 30, 2017. The School continues to carry a receivable of $1,477,941 relating to the funding reduction, offset by a collectability allowance in the same amount.

# COMMUNITY MONTESSORI, INC.
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

**NOTE 3 - INVESTMENTS**

During 2017, the School began to invest funds held in excess of current operating requirements. Such investments consisted of the following as of June 30, 2017:

| | | |
|---|---|---|
| Corporate bonds | $ | 428,370 |
| Equity securities and equity mutual funds: | | |
| Industrials | | 1,663 |
| Consumer discretionary | | 1,109 |
| Consumer staples | | 4,989 |
| Energy | | 1,663 |
| Financial | | 3,881 |
| Materials | | 2,217 |
| Information technology | | 3,326 |
| Utilities | | 2,217 |
| Health care | | 3,881 |
| Real estate | | 27,718 |
| Telecommunication services | | 2,772 |
| Money market funds | | 20,159 |
| | $ | 503,965 |

**NOTE 4 - REFUNDABLE ADVANCE**

The School has been awarded a grant from the Lilly Foundation, Inc. for the purpose of establishing comprehensive counseling services for students. The grant must be utilized for its intended purpose no later than December 31, 2017, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statements of financial position and had a balance of $28,374 at June 30, 2017.

## NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to Stock Yards Bank & Trust, payable $26,716 monthly, including interest at 2.77% per annum, refinanced in July 2016 | $ - | $ 2,541,280 |
| Note payable to Stock Yards Bank & Trust, payable $13,088 monthly, including interest at 5.75% per annum, refinanced in July 2016 | - | 344,759 |
| Note payable to Main Source Bank, payable $23,592 monthly, including interest at 3.7% per annum, refinanced in July 2016 | - | 3,458,022 |
| Note payable to German American Bancorp, payable $33,498 monthly, including interest at 2.99% per annum, maturing in July 2036 | 5,819,081 | - |
| Note payable to German American Bancorp, payable $2,108 monthly, including interest at 3.88% per annum, maturing in July 2036 | 236,779 | - |
| | 6,055,860 | 6,344,061 |
| Less: current portion | (245,546) | (214,195) |
| Long-term portion | $ 5,810,314 | $ 6,129,866 |

The notes payable to Stock Yards Bank & Trust and Main Source Bank were the result of Economic Development Revenue Bonds issued by the Town of Sellersburg, Indiana. These notes were secured by first and second mortgages on the land and building as well as a security interest in all fixtures, equipment, and machinery installed therein. In addition, the Charter School Development Corporation, an unrelated not-for-profit organization, pledged certificates of deposit as additional collateral.

The notes payable to Stock Yards Bank & Trust and Main Source Bank were refinanced during July 2016 with two notes payable to German American Bancorp.

## NOTE 5 - NOTES PAYABLE, Continued

Principal maturities of German American Bancorp notes payable are scheduled as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 245,546 |
| 2019 | | 252,800 |
| 2020 | | 260,268 |
| 2021 | | 268,882 |
| 2022 | | 277,313 |
| Thereafter | | 4,751,051 |
| | $ | 6,055,860 |

## NOTE 6 - RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions that have been received but not expended for the identified purposes or have been donated for use in future periods. Temporarily restricted net assets were available for the following purposes as of June 30:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Casa dei Curiosities capital project | $ | 60,562 | $ | - |
| Community activities | | 1,484 | | 1,484 |
| Scholarships | | 5,575 | | 4,575 |
| Teen support group | | 1,277 | | 1,642 |
| | $ | 68,898 | $ | 7,701 |

During 2017 and 2016, net assets of $869 and $6,626, respectively, were released from restriction by incurring expenses satisfying the restricted purposes or due to the passage of time.

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

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. The charter remains in effect until June 30, 2022, and is renewable thereafter by mutual consent. Expense under this agreement was $82,731 and $80,950 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 8 - RELATED PARTY TRANSACTIONS

The School purchased various supplies from a company whose owner is related to a management employee of the School. Total purchases for the years ended June 30, 2017 and 2016 were $15,676 and $17,663, respectively. At June 30, 2017, there was no balance owed to this vendor. At June 30, 2016 there was a balance owed to this vendor of $1,017.

## NOTE 9 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel 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 determined annually by the INPRS Board. For the years ended June 30, 2017 and 2016, the School contributed 7.5% of compensation for eligible teaching personnel to TRF. Should the School elect to withdraw from TRF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2016 (the latest year reported), TRF was more than 80% funded.

Effective October 2015 the school withdrew from PERF, and instead, all non-teaching personnel are enrolled in a defined contribution Section 403(b) plan in lieu of PERF. Teaching personnel can also opt to participate in the 403(b) plan in lieu of TRF. Under the 403(b) plan, the School will match an employee's contributions up to 3% of compensation, which can be higher based on years of service. Retirement plan expense under all plans was $112,605 and $106,918 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 10 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Floyd and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

Like other publicly funded schools, the majority of revenues relate to legislation enacted by the State of Indiana or 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. In addition, deposits maintained at German American Bancorp generally exceed the FDIC insurance limit.

## NOTE 11 - FAIR VALUE MEASUREMENTS

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participants assumptions based on market data obtained from sources independent of the entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the Corporation has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3.* Unobservable inputs for the asset or liability.

The School's statements of financial position include the following financial instruments that are required to be measured at fair value on a recurring basis:

- *Investments in corporate bonds* – considered Level 1 assets, and are reported at fair value based on quoted market prices in active markets for identical assets at the measurement date.
- *Investments in equity securities and equity mutual funds* – considered Level 1 assets, and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- *Investments in money market funds* – considered Level 2 assets, and are reported at fair value, which is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuers.

## NOTE 12 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

Discovery Charter School

**DUNELAND CHARTER SCHOOL, INC.**
**d/b/a DISCOVERY CHARTER SCHOOL**

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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Donovan CPAs

*Independent Auditors' Report*

The Board of Directors
Duneland Charter School, Inc.

We have audited the accompanying financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Duneland Charter School, Inc. as of June 30, 2017 and 2016, its change in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

November 1, 2017
Indianapolis, Indiana

# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL

## STATEMENTS OF FINANCIAL POSITION

**June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 438,249 | $ 636,273 |
| Accounts receivable: | | |
| Grants | 28,708 | 11,992 |
| Other | - | 1,081 |
| Prepaid expenses | 24,992 | 22,507 |
| *Total current assets* | 491,949 | 671,853 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 408,188 | 408,188 |
| Buildings and improvements | 5,843,591 | 3,805,534 |
| Furniture and equipment | 943,328 | 779,576 |
| Textbooks | 94,956 | 94,956 |
| Less: accumulated depreciation | (918,726) | (660,674) |
| *Property and equipment, net* | 6,371,337 | 4,427,580 |
| **OTHER ASSETS** | | |
| Cash - restricted for debt service | 690,067 | 679,261 |
| Cash - restricted for construction | 233,707 | 2,153,345 |
| Security deposits | 12,990 | 12,990 |
| *Total other assets* | 936,764 | 2,845,596 |
| **TOTAL ASSETS** | $ 7,800,050 | $ 7,945,029 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 117,500 | $ 58,750 |
| Accounts payable and accrued expenses | 218,251 | 192,642 |
| *Total current liabilities* | 335,751 | 251,392 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | 7,468,750 | 7,586,250 |
| Less: unamortized debt issuance cost | (343,959) | (356,028) |
| *Total long-term liabilities, net of unamortized debt issuance costs* | 7,124,791 | 7,230,222 |
| *Total liabilities* | 7,460,542 | 7,481,614 |
| **NET ASSETS, UNRESTRICTED** | 339,508 | 463,415 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 7,800,050 | $ 7,945,029 |

See independent auditors' report and accompanying notes to the financial statements

# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 2,927,238 | $ 2,843,945 |
| Grant revenue | 568,726 | 633,159 |
| Student fees | 211,821 | 114,230 |
| Contributions | 57,722 | 1,149 |
| Interest income | 1,692 | 1,078 |
| Other income | 11,030 | 26,557 |
| *Total revenue and support* | 3,778,229 | 3,620,118 |
| **EXPENSES** | | |
| Program services | 2,876,206 | 2,590,545 |
| Management and general | 1,025,930 | 862,622 |
| *Total expenses* | 3,902,136 | 3,453,167 |
| **CHANGE IN NET ASSETS** | (123,907) | 166,951 |
| **NET ASSETS, BEGINNING OF YEAR** | 463,415 | 296,464 |
| **NET ASSETS, END OF YEAR** | $ 339,508 | $ 463,415 |

# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL

## STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 1,519,230 | $ 262,049 | $ 1,781,279 | $ 1,425,506 | $ 232,423 | $ 1,657,929 |
| Employee benefits | 438,106 | 71,535 | 509,641 | 412,486 | 57,073 | 469,559 |
| Staff development | 7,384 | - | 7,384 | 4,938 | - | 4,938 |
| Professional services | 93,189 | 17,142 | 110,331 | 69,702 | 22,398 | 92,100 |
| Repairs and maintenance | 41,677 | - | 41,677 | 56,219 | - | 56,219 |
| Authorizer oversight fees | - | 78,152 | 78,152 | - | 75,101 | 75,101 |
| Academic services | - | 64,000 | 64,000 | - | 170,637 | 170,637 |
| Food services | 131,907 | - | 131,907 | 126,538 | - | 126,538 |
| Transportation services | 81,221 | - | 81,221 | 73,022 | - | 73,022 |
| Travel | 2,420 | - | 2,420 | 4,744 | 327 | 5,071 |
| Equipment | 24,428 | 7,493 | 31,921 | 16,339 | 3,614 | 19,953 |
| Classroom, kitchen, and office supplies | 90,673 | 30,809 | 121,482 | 39,146 | 28,531 | 67,677 |
| Occupancy | 91,262 | - | 91,262 | 212,955 | - | 212,955 |
| Information technology | 84,588 | 17,188 | 101,776 | 12,756 | 4,769 | 17,525 |
| Depreciation | 258,052 | - | 258,052 | 130,060 | - | 130,060 |
| Amortization | 12,069 | - | 12,069 | 6,034 | - | 6,034 |
| Interest | - | 451,690 | 451,690 | - | 229,526 | 229,526 |
| Insurance | - | 16,263 | 16,263 | - | 34,058 | 34,058 |
| Other | - | 9,609 | 9,609 | 100 | 4,165 | 4,265 |
| *Total functional expenses* | $ 2,876,206 | $ 1,025,930 | $ 3,902,136 | $ 2,590,545 | $ 862,622 | $ 3,453,167 |

See independent auditors' report and accompanying notes to the financial statements

# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (123,907) | $ 166,951 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by operating activities: | | |
| Depreciation | 258,052 | 130,060 |
| Amortization | 12,069 | 6,034 |
| Changes in certain assets and liabilities: | | |
| Accounts receivable | (15,635) | (2,050) |
| Prepaid expenses | (2,485) | (20,052) |
| Security deposits | - | 30,630 |
| Accounts payable and accrued expenses | 25,609 | (4,533) |
| *Net cash provided by operating activities* | 153,703 | 307,040 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (2,201,809) | (3,804,373) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from notes payable | - | 7,645,000 |
| Principal payments on notes payable | (58,750) | (366,685) |
| Principal payments on capital lease obligation | - | (34,569) |
| Increase in cash restricted for debt service | (10,806) | (679,261) |
| Net (increase)/decrease in cash restricted for construction | 1,919,638 | (2,153,345) |
| Increase in debt issuance costs | - | (362,062) |
| *Net cash provided by financing activities* | 1,850,082 | 4,049,078 |
| **NET CHANGE IN CASH** | (198,024) | 551,745 |
| **CASH, BEGINNING OF YEAR** | 636,273 | 84,528 |
| **CASH, END OF YEAR** | $ 438,249 | $ 636,273 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 451,690 | $ 229,526 |

# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Duneland Charter School, Inc. d/b/a Discovery Charter 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 serving approximately 515 students in grades kindergarten through eight and is sponsored by Ball State University.

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 primarily 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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

Taxes on Income – The School 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 years ended June 30, 2017 and 2016, 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. Tax years ended after 2013 are open to audit for both federal and state purposes.

Accounts Receivable – Accounts receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $1,000 are generally 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:

| | |
|---|---|
| Buildings and improvements | 20 - 39 years |
| Furniture and equipment | 3 - 7 years |
| Textbooks | 5 years |

Debt Issuance Costs – During 2016, the School incurred costs associated with securing financing under the Indiana Finance Authority Education Facilities Revenue Bond. Total costs incurred were $362,062. Amortization is provided on a straight-line basis over the term of the bond (30 years). Accumulated amortization as of June 30, 2017 and 2016 was $18,103 and $6,034, respectively. Amortization expense for the years ended June 30, 2017 and 2016 was $12,069 and $6,034, respectively. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs is presented as a direct deduction from the carrying amount of the related debt liability.

Reclassifications – Certain figures for 2016 that were previously reported have been reclassified for comparative purposes. These reclassifications had no impact on the previously reported change in net assets.

Subsequent Events – The School evaluated subsequent events through November 1, 2017, 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.

## NOTE 2 - RESTRICTED CASH

*Cash - restricted for debt service* is reserved solely for the payment of principal and interest on the bond in the event that other funding is unavailable to meet payment requirements. Of the balance, $624,412 is to be held until all bond debt is paid.

*Cash - restricted for construction* represents resources available for the building project and are drawn down as construction is completed.

## NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Indiana Finance Authority Educational Facilities Revenue Bond, Series 2015A with an original amount of $7,230,000. The principal amount was reduced by $760,000 using financing from the State of Indiana. The loan principal is payable in annual installments that increase from $155,000 to $580,000 from December 2026 to December 2045. Interest payments are made semi-annually at a rate of 7.25% in accordance with the bond agreement. The bond obligation is secured by land, buildings, and improvements. | $ 6,470,000 | $ 6,470,000 |
| Note payable to the Indiana Common School Fund with an original amount of $1,175,000. The note requires semi-annual payments of $58,750 plus interest at 1% per annum from January 2017 to July 2026 | 1,116,250 | 1,175,000 |
| | 7,586,250 | 7,645,000 |
| Less: current portion | (117,500) | (58,750) |
| Long-term portion | $ 7,468,750 | $ 7,586,250 |

The Indiana Finance Authority Educational Facilities Revenue Bond agreement contains certain covenants requiring minimum unrestricted cash reserves sufficient to meet 30 days of operating expenses and establishes a minimum debt service coverage ratio (1.10 to 1.00). The School was in compliance with covenants for 2017.

Principal maturities of notes payable are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 117,500 |
| 2019 | 117,500 |
| 2020 | 117,500 |
| 2021 | 117,500 |
| 2022 | 117,500 |
| Thereafter | 6.998,750 |
| | $ 7,586,250 |

## NOTE 4 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. For the year ended June 30, 2017, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 7.25% for other employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2016 (the latest year reported), TRF and PERF were more than 80% funded. Retirement plan expenses totaled $142,199 and $132,678 during the years ended June 30, 2017 and 2016, respectively.

The School also maintains a Section 403(b) retirement plan. Employees may contribute up to 100% of their compensation provided they are at least 18 years of age and have at least 30 days of employment. There is no provision for an employer match.

## NOTE 5 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

## NOTE 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. Payments under this charter agreement were $78,152 and $75,101 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2020, and is renewable thereafter by mutual consent.

## NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Porter and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

**NOTE 7 - RISKS AND UNCERTAINTIES, Continued**

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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained at Chase Bank and Huntington Bank, and are insured up to the FDIC insurance limit.

# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL
## OTHER REPORT
## For the Year Ended June 30, 2017

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

Supplemental Audit Report of Duneland Charter School, Inc.
d/b/a Discovery Charter 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*.

SUPPLEMENTAL AUDIT REPORT

OF

**DUNELAND CHARTER SCHOOL, INC.**
**d/b/a DISCOVERY CHARTER SCHOOL**

PORTER COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL
## PORTER COUNTY, INDIANA
## School Officials
## July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Laurie Metz | 07/01/16 – 06/30/17 |
| School Director | Ernesto Martinez | 07/01/16 – 07/31/17 |
| School Treasurer | William Schmuhl | 07/01/16 – 06/30/17 |

Donovan CPAs

The Board of Directors
Duneland Charter School, Inc.

We have audited the financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated November 1, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
November 1, 2017

# DUNELAND CHARTER SCHOOL, INC.
# d/b/a DISCOVERY CHARTER SCHOOL
## PORTER COUNTY, INDIANA
## Audit Results and Comments
## July 1, 2016 to June 30, 2017

### FINANCIAL REPORTING

Our examination of the semi-annual financial report to the Indiana Department of Education (Form 9) for the period January 1, 2016 to June 30, 2017 revealed that the June 30, 2017 cash balance did not reflect the balance as reported on the books and records. The balance reported on Form 9 was ($873,426) while cash per the financial statements was $438,249. Additionally, cash balances for various federal grant funds did not reflect accurate balances at June 30, 2017.

Charter schools are required to submit a Form 9 Biannual Financial Report two times per year during the months of January and July. The financial information in the Form 9 shall reflect cash basis information. The January report must include previous calendar year financial and other required information for the period July 1 to December 31 financial data. The July report must include current calendar year financial and other required information for the period January 1 to June 30. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 9)

The charter school's accounting system must facilitate the preparation of the periodic financial reports for administrative review and the required year-end financial statements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

**DUNELAND CHARTER SCHOOL, INC.**
**d/b/a DISCOVERY CHARTER SCHOOL**
**PORTER COUNTY, INDIANA**
**Exit Conference**
**July 1, 2016 to June 30, 2017**

The contents of this report were discussed on October 31, 2017 with Ernesto Martinez (School Director) and Allan Gabriele (School Treasurer). The Official Response has been made a part of this report and may be found on page 5.

Discovery became self-managed on July 1, 2016. Discovery assumed responsibility for all compliance reporting including Form 9 required semi-annually by the Indiana Department of Education. The balances carried forward on Form 9 at June 30, 2016 were inaccurate with respect to cash on hand and grant funds. Since Form 9 is electronically submitted with emphasis on income statement presentation, we thought it prudent to carry forward inaccurate balances rather than risk adjustment that we could not explain. Now that we better understand the function of Form 9 (no feedback is ever received) we will make sure that the balance sheet accounts disclosed on Form 9 conform to our general ledger and financial statements.

East Chicago Urban Enterprise Academy

# EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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*Independent Auditors' Report*

The Board of Directors
East Chicago Urban Enterprise Academy, Inc.

We have audited the accompanying financial statements of East Chicago Urban Enterprise Academy, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

***Auditors' 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 auditors' 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 auditors consider 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 East Chicago Urban Enterprise Academy, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
December 20, 2017

# EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 344,128 | $ 387,171 |
| Accounts receivable: | | |
| Grants | 38,351 | 34,172 |
| Other | 14 | 4,736 |
| *Total current assets* | 382,493 | 426,079 |
| **PROPERTY AND EQUIPMENT** | | |
| Buildings and improvements | 2,356,038 | 2,356,038 |
| Furniture and equipment | 653,470 | 628,804 |
| Less: accumulated depreciation | (1,313,724) | (1,228,432) |
| *Property and equipment, net* | 1,695,784 | 1,756,410 |
| **OTHER ASSETS** | | |
| Security deposit | 7,803 | 7,803 |
| **TOTAL ASSETS** | $ 2,086,080 | $ 2,190,292 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 217,231 | $ 1,113,120 |
| Accounts payable and accrued expenses | 231,996 | 169,243 |
| *Total current liabilities* | 449,227 | 1,282,363 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | 1,089,001 | 404,768 |
| *Total liabilities* | 1,538,228 | 1,687,131 |
| **NET ASSETS** | 547,852 | 503,161 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 2,086,080 | $ 2,190,292 |

# EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 3,026,997 | $ 2,929,782 |
| Grant revenue | 884,499 | 904,167 |
| Student fees | 36,425 | 24,361 |
| Program fees | 10,725 | 13,457 |
| Contributions | 6,682 | 16 |
| Fundraising income | - | 15,967 |
| Other income | 12,504 | 1,441 |
| *Total revenue and support* | 3,977,832 | 3,889,191 |
| **EXPENSES** | | |
| Program services | 3,056,222 | 2,850,935 |
| Management and general | 876,919 | 713,536 |
| *Total expenses* | 3,933,141 | 3,564,471 |
| **CHANGE IN NET ASSETS** | 44,691 | 324,720 |
| **NET ASSETS, BEGINNING OF YEAR** | 503,161 | 178,441 |
| **NET ASSETS, END OF YEAR** | $ 547,852 | $ 503,161 |

# EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 1,508,868 | $ 190,640 | $ 1,699,508 | $ 1,395,028 | $ 184,318 | $ 1,579,346 |
| Employee benefits | 337,805 | 42,856 | 380,661 | 394,991 | 66,203 | 461,194 |
| Professional services | 150,863 | 41,165 | 192,028 | 56,512 | 34,761 | 91,273 |
| Depreciation | 85,292 | - | 85,292 | 93,729 | - | 93,729 |
| Classroom, kitchen, and office supplies | 161,402 | 24,475 | 185,877 | 75,638 | 21,942 | 97,580 |
| Food costs | 223,572 | - | 223,572 | 242,850 | - | 242,850 |
| Insurance | - | 27,494 | 27,494 | - | 18,827 | 18,827 |
| Occupancy | 431,643 | 1,397 | 433,040 | 407,438 | 8,139 | 415,577 |
| Authorizer oversight fees | - | 65,442 | 65,442 | - | 62,882 | 62,882 |
| Academic services | - | 399,788 | 399,788 | - | 234,383 | 234,383 |
| Equipment | 55,657 | 9,764 | 65,421 | 63,532 | 3,906 | 67,438 |
| Property rental and maintenance | 39,864 | 158 | 40,022 | 12,838 | - | 12,838 |
| Staff development | - | - | - | 15,313 | - | 15,313 |
| Interest | - | 49,506 | 49,506 | - | 59,843 | 59,843 |
| Advertising | - | 1,661 | 1,661 | - | - | - |
| Travel | 19,860 | 2,918 | 22,778 | 30,968 | 3,843 | 34,811 |
| Information technology | 6,164 | 1,600 | 7,764 | 5,800 | - | 5,800 |
| Other | 35,232 | 18,055 | 53,287 | 56,298 | 14,489 | 70,787 |
| *Total functional expenses* | $ 3,056,222 | $ 876,919 | $ 3,933,141 | $ 2,850,935 | $ 713,536 | $ 3,564,471 |

See independent auditors' report and accompany notes to the financial statements

# EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 44,691 | $ 324,720 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by operating activities: | | |
| Depreciation | 85,292 | 93,729 |
| Change in certain assets and liabilities: | | |
| Accounts receivable | 543 | 57,682 |
| Prepaid expenses | - | 32,435 |
| Accounts payable and accrued expenses | 62,753 | (82,050) |
| *Net cash provided by operating activities* | 193,279 | 426,516 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (24,666) | - |
| **FINANCING ACTIVITIES** | | |
| Principal reduction of capital lease obligation | - | (7,564) |
| Principal payments on notes payable | (211,656) | (206,660) |
| *Net cash used in financing activities* | (211,656) | (214,224) |
| **NET CHANGE IN CASH** | (43,043) | 212,292 |
| **CASH, BEGINNING OF YEAR** | 387,171 | 174,879 |
| **CASH, END OF YEAR** | $ 344,128 | $ 387,171 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 49,506 | $ 59,843 |

See independent auditors' report and accompanying notes to the financial statements

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – East Chicago Urban Enterprise 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 public charter school established under Indiana Code 20-24 serving approximately 415 students in grades kindergarten through eighth and is sponsored by Ball State University.

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 primarily 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 school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Taxes on Income – East Chicago Urban Enterprise 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 years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was 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. Tax years ended after 2013 are open to audit for both federal and state purposes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $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:

| | |
|---|---|
| Buildings and improvements | 15 to 39 years |
| Furniture and equipment | 3 to 7 years |

Subsequent Events – The School evaluated subsequent events through December 20, 2017, 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.

## NOTE 2 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Line of credit agreement, payable in monthly installments of $11,267 including interest at 1.0% per annum through July 2020, secured by all School assets | $ 404,663 | $ 535,110 |
| Mortgage note payable to Peoples Bank, payable in monthly installments of $10,538 including interest at a rate of 4.75% through February 2022, thereafter payable in monthly installments of $10,437 including interest at a variable rate based on 1-Year Treasury Constant Maturity rate plus margin of 3.00%, adjustable annually, through March 2026, secured by a mortgage on School facilities and all School assets. This note was refinanced in 2017. | 901,569 | 982,778 |
| | 1,306,232 | 1,517,888 |
| Less: current maturities | (217,231) | (1,113,120) |
| Long-term portion | $ 1,089,001 | $ 404,768 |

**NOTE 2 - NOTES PAYABLE, Continued**

Principal maturities of notes payable are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 217,231 |
| 2019 | | 222,717 |
| 2020 | | 228,406 |
| 2021 | | 103,958 |
| 2022 | | 103,688 |
| Thereafter | | 430,232 |
| Total | $ | 1,306,232 |

**NOTE 3 - LEASES**

The School leases its building, modular classrooms, and equipment under operating leases. Total expense under these operating leases for June 30, 2017 and 2016 was $235,767 and $262,023, respectively.

Future minimum rental payments as of June 30, 2017 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 244,963 |
| 2019 | | 253,132 |
| 2020 | | 95,940 |
| 2021 | | 12,068 |
| 2022 | | 1,437 |

**NOTE 4 - RETIREMENT PLANS**

Retirement benefits for School employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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 plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 11.2% of compensation for other employees of PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was $109,138 and $138,934 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 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 received. Payments under this charter agreement were $65,442 and $62,882 for the years ended June 30, 2017 and 2016, respectively. The charter will remain in effect until June 30, 2021 and is renewable thereafter by mutual consent.

Effective July 1, 2016, the School contracted with The Leona Group, LLC to provide financial, management, administrative and educational programming services. Under the terms of the agreement, the School agreed to pay an amount equal to 10% of revenues, as defined, for such services. The contract expires June 30, 2019. Payments under this contract were $399,788 for the year ended June 30, 2017.

Through June 30, 2016, the School had contracted with American Quality Schools, to provide management, administrative and educational programming services. Under the terms of the agreement, the School paid an amount equal to 6% of revenues, as defined, for such services. The contract commenced July 1, 2014 and expired June 30, 2016. Payments under this contract were $234,383 for the year ended June 30, 2016. The contract with American Quality Schools was not renewed.

## NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Lake 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 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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at Peoples Bank, and are insured up to the FDIC insurance limit.

## NOTE 7 - FUNCTIONAL EXPENSE REPORTING

The cost of providing educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

# EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
## OTHER REPORT
## For the Year Ended June 30, 2017

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

Supplemental Audit Report of East Chicago Urban Enterprise 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.*

SUPPLEMENTAL AUDIT REPORT

OF

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**

LAKE COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**
**LAKE COUNTY, INDIANA**
**School Officials**
**July 1, 2016 to June 30, 2017**

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | David Padilla | 07/01/16 – 06/30/17 |
| School Leader | Veronica Eskew | 07/01/16 – 06/30/17 |
| School Treasurer | Melinda Benkovsky | 07/01/16 – 06/30/17 |

To the Board of Directors
East Chicago Urban Enterprise Academy, Inc.

We have audited the financial statements of East Chicago Urban Enterprise Academy, Inc. (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated December 20, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 20, 2017

## REQUIRED REPORTS

The financial report to the Indiana Department of Education (Form 9) submitted by the School did not properly reflect the cash activity for the period from July 1, 2016 to June 30, 2017. Receipts and expenditures reported in the various fund accounts did not accurately reflect the activity in those funds. In addition, the General Fund, as of June 30, 2017, was overdrawn by $73,460.

Charter schools are required to submit a Form 9 Biannual Financial Report two times per year during the months of January and July. The financial information in the Form 9 shall reflect cash basis information. The January report must include previous calendar year financial and other required information for the period of July 1 to December 31 financial data. The July report must include current calendar year financial and other required information for the period of January 1 to June 30. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 9)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

## CASH RECEIPTS AND DEPOSITS

The School receives cash payments for various purposes, including uniforms, fundraisers, and student fees. Procedures were in place to process cash collections, however, we noted the following issue with regard to the cash receipts process:

Out of the 25 receipts selected for testing, 15 were not deposited timely.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

## MINIMUM INTERNAL CONTROL STANDARDS

Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**
**LAKE COUNTY, INDIANA**
**Exit Conference**
**July 1, 2016 to June 30, 2017**

The contents of this report were discussed on December 20, 2017 with Veronica Eskew (School Leader), David Padilla (President of Board of Directors), Javier Garibay, Melinda Benkovsky, Desiree Holmes, and Renee Lindemann (Representatives of The Leona Group). The Official Response has been made a part of this report and may be found on page 6.

East Chicago Urban Enterprise Academy
"Students First, Family Focused"

December 20, 2017

Donovan, P.C.
9292 N. Meridian Street, Suite 150
Indianapolis, Indiana 46260

**RE: Response to Findings – July 1, 2016 to June 30, 2017**

**REQUIRED REPORTS**

***Finding:***

The financial report to the Indiana Department of Education (Form 9) submitted by the School did not properly reflect the cash activity for the period from July 1, 2016 to June 30, 2017. Receipts and expenditures reported in the various fund accounts did not accurately reflect the activity in those funds. In addition, the General Fund, as of June 30, 2017, was overdrawn by $73,460.

Charter schools are required to submit a Form 9 Biannual Financial Report two times per year during the months of January and July. The financial information in the Form 9 shall reflect cash basis information. The January report must include previous calendar year financial and other required information for the period of July 1 to December 31 financial data. The July report must include current calendar year financial and other required information for the period of January 1 to June 30. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 9)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

***School Response:***

East Chicago Urban Enterprise Academy will continue to submit a Form 9 Biannual Financial Report twice per year as required, and will comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements.

1402 E. Chicago Avenue, East Chicago, IN 46312
Ph: 219.392.3650 Fax: 219.392.3652
www.ecuea.com
THE LEONA GROUP • Chartered by Ball State University

Receipts have been reported correctly in the General Fund, but expenditures resulting from the Charter and Innovation Network School Grant Program were incorrectly reported under the General Fund. Going forward, expenditures will be correctly reported under the Innovation Network School Grant Program, and a manual adjustment will be made to the Form 9 to reflect proper prior year activity.

The academy has identified various fund balances carried forward from the previous management company's submissions, which are no longer in use. These funds will be eliminated and manually adjusted in the 2017-2018 fiscal year.

## CASH RECEIPTS AND DEPOSITS

*Finding:*

The School receives cash payments for various purposes, including uniforms, fundraisers, and student fees. Procedures were in place to process cash collections, however, we noted the following issue with regard to the cash receipts process:

Out of the 25 receipts selected for testing, 15 were not deposited timely.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

*School Response:*

East Chicago Urban Enterprise Academy will abide by the Accounting and Uniform Compliance Guideline Manual for Indiana Charter Schools, Part 8, and shall deposit all funds received in the designated depository in a timely manner.

## MINIMUM INTERNAL CONTROL STANDARDS

*Finding:*

Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

***School Response:***

The board adopted internal control standards and procedures as official policies of the East Chicago Urban Enterprise Academy on December 13, 2017 at the regular board meeting. All staff at the academy that handle cash transactions, members of the board of directors, and employees of the management company finance department will partake in the training provided by the State Board of Accounts, and will certify completion of the training.

Sincerely,

David Padilla

David Padilla, Board of Directors

12/20/2017

Date

Dr. Robert H. Faulkner Academy

# DR. ROBERT H. FAULKNER ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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Donovan CPAs

***Independent Auditors' Report***

The Board of Directors
Dr. Robert H. Faulkner Academy, Inc.

***Report on the Financial Statements***

We have audited the accompanying financial statements of Dr. Robert H. Faulkner Academy, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

***Auditors' 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 auditors' 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 auditors consider 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.

**www.cpadonovan.com**
**Westside Office** | 5151 E. U.S. HWY 36, Avon, IN 46123 | 317.745.6411
**Northside Office** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dr. Robert H. Faulkner Academy, Inc. as of June 30, 2017 and 2016 and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

November 9, 2017
Indianapolis, Indiana

## DR. ROBERT H. FAULKNER ACADEMY, INC.
## STATEMENTS OF FINANCIAL POSITION
## June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 293,874 | $ 361,427 |
| Grants receivable | 9,966 | 16,178 |
| Prepaid expenses | 9,239 | 9,292 |
| *Total current assets* | 313,079 | 386,897 |
| **PROPERTY AND EQUIPMENT** | | |
| Furniture and equipment | 369,589 | 369,589 |
| Textbooks | 194,752 | 194,752 |
| Leasehold improvements | 24,341 | 24,341 |
| Less: accumulated depreciation | (528,564) | (489,281) |
| *Property and equipment, net* | 60,118 | 99,401 |
| **TOTAL ASSETS** | $ 373,197 | $ 486,298 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 116,012 | $ 154,309 |
| Refundable advances | - | 4,453 |
| *Total current liabilities* | 116,012 | 158,762 |
| **UNRESTRICTED NET ASSETS** | 257,185 | 327,536 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 373,197 | $ 486,298 |

# DR. ROBERT H. FAULKNER ACADEMY, INC.
## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 783,505 | $ 824,660 |
| Grant revenue | 243,369 | 247,825 |
| Student fees | 8,551 | 10,829 |
| Contributions | 2,900 | - |
| Other income | 181 | 696 |
| *Total revenue and support* | 1,038,506 | 1,084,010 |
| **EXPENSES** | | |
| Program services | 830,633 | 838,116 |
| Management and general | 278,224 | 282,135 |
| *Total expenses* | 1,108,857 | 1,120,251 |
| **CHANGE IN NET ASSETS** | (70,351) | (36,241) |
| **NET ASSETS, BEGINNING OF YEAR** | 327,536 | 363,777 |
| **NET ASSETS, END OF YEAR** | $ 257,185 | $ 327,536 |

# DR. ROBERT H. FAULKNER ACADEMY, INC.
## STATEMENTS OF FUNCTIONAL EXPENSES
### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 394,435 | $ 140,984 | $ 535,419 | $ 422,679 | $ 138,729 | $ 561,408 |
| Employee benefits | 109,932 | 26,266 | 136,198 | 119,549 | 25,978 | 145,527 |
| Staff development | 8,777 | - | 8,777 | 11,221 | - | 11,221 |
| Professional services | 27,923 | 63,755 | 91,678 | 25,283 | 61,698 | 86,981 |
| Repairs and maintenance | 11,238 | - | 11,238 | 17,307 | - | 17,307 |
| Authorizer oversight fee | - | 17,706 | 17,706 | - | 18,965 | 18,965 |
| Administative service fee | - | 15,670 | 15,670 | - | 16,493 | 16,493 |
| Food costs | 67,258 | - | 67,258 | 67,300 | - | 67,300 |
| Equipment | 31,385 | - | 31,385 | 13,608 | - | 13,608 |
| Classroom, kitchen and office supplies | 14,093 | 7,640 | 21,733 | 11,748 | 10,101 | 21,849 |
| Occupancy | 126,309 | - | 126,309 | 122,239 | - | 122,239 |
| Depreciation | 39,283 | - | 39,283 | 26,652 | - | 26,652 |
| Insurance | - | - | - | - | 137 | 137 |
| Other | - | 6,203 | 6,203 | 530 | 10,034 | 10,564 |
| *Total functional expenses* | $ 830,633 | $ 278,224 | $ 1,108,857 | $ 838,116 | $ 282,135 | $ 1,120,251 |

See independent auditors' report and accompanying notes to the financial statements

# DR. ROBERT H. FAULKNER ACADEMY, INC.

## STATEMENTS OF CASH FLOWS

## For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (70,351) | $ (36,241) |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation | 39,283 | 26,652 |
| Loss on disposal of property and equipment | - | 531 |
| Changes in certain assets and liabilities: | | |
| Grants receivable | 6,212 | 4,424 |
| Prepaid expenses | 53 | 606 |
| Accounts payable and accrued expenses | (38,297) | 45,678 |
| Refundable advances | (4,453) | 3,529 |
| *Net cash provided by (used in) operating activities* | (67,553) | 45,179 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | - | (33,622) |
| **CHANGE IN CASH** | (67,553) | 11,557 |
| **CASH, BEGINNING OF YEAR** | 361,427 | 349,870 |
| **CASH, END OF YEAR** | $ 293,874 | $ 361,427 |
| **SUPPLEMENTAL INFORMATION** | | |
| Purchases of property and equipment financed through accounts payable | $ - | $ 57,777 |

# DR. ROBERT H. FAULKNER ACADEMY, INC.
## NOTES TO THE FINANCIAL STATEMENTS
### For the Years Ended June 30, 2017 and 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – Dr. Robert H. Faulkner 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 public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. The School has contracted The Leona Group, LLC to provide management and administrative 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 is paid in monthly installments in July through June coinciding with 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.

Grants Receivable – Grants 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.

Taxes on Income – Dr. Robert H. Faulkner Academy, Inc. has received a determination from the U.S. Internal Revenue Service 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $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:

| | |
|---|---|
| Furniture and equipment | 3 to 4 years |
| Textbooks | 4 years |
| Leasehold improvements | 5 years |

Subsequent Events – The School evaluated subsequent events through November 9, 2017, 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.

### NOTE 2 – LEASES

The School leases its school facility as well as certain items of office equipment under operating leases for terms from four to five years. Expense under operating leases for the years ended June 30, 2017 and 2016 was $107,307 and $107,216, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 106,794 |
| 2019 | 3,596 |

### NOTE 3 – RETIREMENT PLANS

All School personnel are employees of The Leona Group, LLC, which provides management services to the School. School personnel are eligible to participate in The Leona Group, LLC Section 401(k) Plan. Under the plan, the School matches employee contributions dollar for dollar up to 6% of base compensation. Substantially all full-time employees are eligible to participate. Retirement plan expense was $7,095 and $6,727 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 4 – 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. Expense under this charter agreement was $17,706 and $18,965 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

The School has contracted with The Leona Group, LLC to provide on-going consulting services with regard to school administration and management, training, and grant writing. Under the terms of the agreement, the School has agreed to pay an amount equal to 2% of state education support revenue, as defined, for these services. Such fees for the years ended June 30, 2017 and 2016 were $15,670 and $16,493, respectively. Additionally, the School has also contracted with The Leona Group, LLC to provide employee leasing services. Under the terms of the agreement, the School has agreed to pay an amount equal to 4% of state education support revenues, as defined, for this service. Such fees for the years ended June 30, 2017 and 2016 were $31,340 and $32,986, respectively.

## NOTE 5 – RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Grant 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 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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana. Cash deposits are maintained at STAR Financial Bank and are insured up to the FDIC insurance limit.

## NOTE 6 – FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services.

# DR. ROBERT H. FAULKNER ACADEMY, INC.
## OTHER REPORT
### For the Year Ended June 30, 2017

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

Supplemental Audit Report of Dr. Robert H. Faulkner 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.*

SUPPLEMENTAL AUDIT REPORT

OF

# DR. ROBERT H. FAULKNER ACADEMY, INC.

GRANT COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# DR. ROBERT H. FAULKNER ACADEMY, INC.
## GRANT COUNTY, INDIANA
## School Officials
## July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Jeanne Goble | 07/01/16 – 06/30/17 |
| School Director | Janice Adams | 07/01/16 – 06/30/17 |
| School Treasurer | Arthur Faulkner | 07/01/16 – 06/30/17 |

The Board of Directors
Dr. Robert H. Faulkner Academy, Inc.

We have audited the financial statements of Dr. Robert H. Faulkner Academy, Inc. (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated November 9, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments is one matter where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
November 9, 2017

## VENDOR DISBURSEMENTS

We selected a sample of 26 cash disbursements recorded throughout the 2016-2017 school year. In this sample, we identified three transactions where the School incurred and paid late fees on the transactions, totaling $52.18. In addition, we found two disbursement transactions where sales tax was paid, totaling $30.24.

Employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the charter school. Any penalties, interest, or other charges paid by the charter school may be the personal obligation of the responsible employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Charter schools are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application shall be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10).

# DR. ROBERT H. FAULKNER ACADEMY, INC.
## GRANT COUNTY, INDIANA
### Exit Conference
### July 1, 2016 to June 30, 2017

The contents of this report were discussed on November 9, 2017 with Mrs. Jeanne Goble (President of Board of Directors), Mrs. Kelli Dilley (Office Manager). The Official Response has been made a part of this report and may be found on page 5.

# DR. ROBERT H. FAULKNER ACADEMY


*"Stop • Think • Achieve"*

November 6, 2017

Donovan CPAs and Advisors
9292 N. Meridian Street, Suite 150
Indianapolis, Indiana 46260

RE: Official Response

Dr. Robert H. Faulkner Academy's response to the audit result is:

**VENDOR DISBURSEMENTS**

We selected a sample of 26 cash disbursements recorded throughout the 2016-2017 school year. In this sample, we identified three transactions where the School incurred and paid late fees on the transactions, totaling $52.18. In addition, we found two disbursement transactions where sales tax was paid, totaling $30.24.

Employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the charter school. Any penalties, interest, or other charges paid by the charter school may be the personal obligation of the responsible employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Charter schools are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application shall be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10).

**Response**

Dr. Robert H. Faulkner Academy will educate all employee's on the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10 and make sure that a copy of the Tax-ID information is available for purchases solely related to school purchased items.

.

Dr. Robert H. Faulkner Academy (Office Manager) will make sure that all bills are paid in a manner that late fees are not incurred in accordance with Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10

Thank you for assisting with our audit.

Sincerely,

*Kelli Dilley*

Kelli Dilley
Office Manager

Gary Middle College

# GARY MIDDLE COLLEGE, INC.

## FINANCIAL STATEMENTS
June 30, 2017 and 2016

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS
June 30, 2017 and 2016

CONTENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gary Middle College, Inc.
Gary, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of Gary Middle College, Inc. (the School), which comprise the statements of financial position as of June 30, 2017 and 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 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 auditors' 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 auditors consider 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.

(Continued)

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gary Middle College, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows the years then ended in conformity with accounting principles generally accepted in the United States.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
January 31, 2018

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 233,792 | $ 327,458 |
| Grants receivable | 79,099 | 54,500 |
| Prepaid expenses | 19,167 | 11,207 |
| Due from related parties | - | 4,850 |
| Property and equipment, net | 478,555 | 354,553 |
| Total assets | $ 810,613 | $ 752,568 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable and accrued expenses | 110,385 | 86,897 |
| Due to related parties | 14,462 | 43,657 |
| Note payable | 190,000 | 200,000 |
| Total liabilities | 314,847 | 330,554 |
| **NET ASSETS** | | |
| Unrestricted | 495,766 | 422,014 |
| Total liabilities and net assets | $ 810,613 | $ 752,568 |

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Public support and revenues** | | |
| Federal grants | $ 90,410 | $ 63,705 |
| State and local grants | 1,679,384 | 1,429,355 |
| Supporting services | - | 1,000 |
| Total revenue and support | 1,769,794 | 1,494,060 |
| **Expenses** | | |
| Federal grant funded program activities | 90,410 | 63,705 |
| State and local grant funded program activities | 948,810 | 858,765 |
| School operations and building services | 490,811 | 602,332 |
| Education supporting services | 163,213 | 276,149 |
| Administrative | 2,798 | 8,733 |
| Total expenses | 1,696,042 | 1,809,684 |
| Change in net assets | 73,752 | (315,624) |
| Net assets, beginning of year | 422,014 | 737,638 |
| Net assets, end of year | $ 495,766 | $ 422,014 |

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 73,752 | $ (315,624) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 127,431 | 91,735 |
| Change in assets and liabilities | | |
| Grants receivable | (24,599) | (15,970) |
| Prepaid expenses | (7,960) | 5,477 |
| Due to/from related parties | (24,345) | 33,619 |
| Accounts payable and other accrued expenses | 23,488 | (1,978) |
| Net cash from operating activities | 167,767 | (202,741) |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (251,433) | (34,859) |
| Net cash from investing activities | (251,433) | (34,859) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of note payable | - | 200,000 |
| Payments on note payable | (10,000) | - |
| Net cash from financing activities | (10,000) | 200,000 |
| Net change in cash and cash equivalents | (93,666) | (37,600) |
| Cash and cash equivalents, beginning of year | 327,458 | 365,058 |
| **Cash and cash equivalents, end of year** | $ 233,792 | $ 327,458 |

See accompanying notes to financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Organization: Gary Middle College, Inc. (the School) is a nonprofit corporation established to operate a charter school. The School is dedicated to ensure that all students armed with the skills and tools they will need to not only receive a high school diploma, but also to excel at the collegiate level.

The School was established under the laws of the State of Indiana, and operates under a Board of School Directors form of government.

Method of Accounting: The School maintains its accounts on the accrual basis of accounting and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income Taxes: The School is exempt from income taxes on income from related activities under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the School is not considered to be a private foundation under Section 509(a) of the Internal Revenue Code.

The School has adopted applicable guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that 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 benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

The School does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The School recognizes interest and/or penalties related to income tax matters in income tax expense. The School did not have any amounts accrued for interest and penalties at June 30, 2017 and 2016.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000. Bank balances may periodically exceed FDIC insured limits. For the purpose of the statement of cash flows, the School considers all highly liquid instruments, if any, purchased with a maturity of three months or less to be cash equivalent.

Grants Receivable: Grants receivable balances consist of amounts billed or billable for services provided or contracted and are due within one year. The School does not accrue interest on any of its grants receivables.

Allowances: No allowance for doubtful accounts is recorded as of June, 30, 2017 and 2016. The allowances are based upon prior experience and management's analysis of specific receivables and promises to give. Losses are charged off to the reserve when management deems further collection efforts will no longer produce additional recoveries. The School currently considers all receivables to be fully collectible.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property and Equipment: Expenditures for property and equipment and items in excess of $500 which substantially increase the useful lives of existing assets are capitalized at cost or at fair value at date of gift. Repairs and maintenance costs are expensed as incurred. Depreciation has been computed on straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

| | |
|---|---|
| Property and equipment | 3-7 years |

Impairment of Long-Lived Assets: In accordance with GAAP, the School reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. As of June 30, 2017 and 2016, management believes that no impairment exists.

Fair Value of Financial Instruments: The carrying value of all the School's financial instruments, which include cash and cash equivalents, accounts payable and note payable, approximate fair values. Grants receivable are not readily marketable. The School has estimated their fair value to be the carrying value.

Basis of Presentation: The School follows GAAP and reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – The unrestricted net asset class includes general assets and liabilities of the School. The unrestricted net assets of the School may be used at the discretion of management to support the School's purposes and operations.

Temporarily Restricted Net Assets – The temporarily restricted net asset class includes assets of the School related to gifts and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. The School had no temporarily restricted net assets as of June 30, 2017 and 2016.

Permanently Restricted Net Assets – The permanently restricted net asset class includes assets of the School related to contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School had no permanently restricted net assets as of June 30, 2017 and 2016.

Federal and State Grants: Support funded by grants is recognized as the School performs the contracted services under various grant agreements. Grant revenue is typically recognized as earned as the eligible expenses are incurred. Some of the School's grant agreements are not on a cost reimbursement basis, and support is recognized when earned. This includes the School's basic grant support from the State which is based on per-pupil funding. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Functional and Allocated Expenses: Expenses are charged directly to activities when specifically, identifiable. All other costs are allocated to the activities based upon various actual statistical bases. Salaries and related expenses are charged based on the relative amount of time historically spent by personnel. Total program expenses were $1,374,532 and $1,462,456, respectively, for the years ended June 30, 2017 and 2016. Total management and general expenses were $321,510 and $347,226, respectively, for the years ended June 30, 2017 and 2016. The School did not incur any fundraising expenses during either year.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Advertising: The School expenses advertising costs as incurred. During 2017 and 2016, expenses totaling $35,774 and $30,348, were incurred for advertising

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2017, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2017. Management has performed their analysis through January 31, 2018, the date the financial statements were available to be issued.

**NOTE 2 - PROPERTY AND EQUIPMENT**

At June 30, the carrying value of furniture, equipment, and textbooks consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Property and equipment | $ 884,565 | $ 633,132 |
| Less: accumulated depreciation | (406,010) | (278,579) |
| | $ 478,555 | $ 354,553 |

Depreciation expense for the years ended June 30, 2017 and 2016 were $127,431 and $91,735, respectively.

**NOTE 3 - LEASES**

The School leased space from 21st Century Charter Schools @ Gary, Inc., a related entity, though September 2016. In October 2016, the School moved to a new location entering into for a five-year lease agreement with an external party. The original five-year lease term includes subsequent renewal options. Rent expense totaled $132,441 and $300,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments under operating leases at June 30, 2017, are as follows:

| | |
|---|---|
| 2018 | $ 48,023 |
| 2019 | 57,023 |
| 2020 | 57,023 |
| 2021 | 61,690 |
| 2022 | 21,120 |
| | $ 244,879 |

(Continued)

**NOTE 4 - NOTE PAYABLE**

Note payable consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to State of Indiana Treasurer to support school operations, payable semi-annually beginning January 2017, plus interest computed at 1.00%, through maturity in August 2026. * | $ 190,000 | $ 200,000 |

The estimated future principal payments due on the note payable are:

| | |
|---|---|
| 2018 | $ 20,000 |
| 2019 | 20,000 |
| 2020 | 20,000 |
| 2021 | 20,000 |
| 2022 | 20,000 |
| Thereafter | 90,000 |
| | $ 190,000 |

Interest expense during the years ending June 30, 2017 and 2016 was $1,950 and $1,005, respectively.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

The School has a management agreement with the Greater Education Opportunities Foundation, Inc., (GEOF). Under the management agreement, GEOF charges administrative and per student fees in exchange for the management, operation, administration, payroll and accounting services provided. During the years ended June 30, 2017 and 2016, the School paid GEOF fees of $163,213 and $156,000, respectively. As part of the management services provided, GEOF acts as the payor of certain operating expenses, which are reimbursed to GEOF by the School. The School's Board retains final authority and responsibility for financial and budgetary commitments. At June 30, 2017 and 2016, the School had a payable to GEOF for $13,083 and $16,428, respectively. There was no receivable outstanding at June 30, 2017 and 2016.

At June 30, 2017 and 2016, the School had a receivable balance in the amount of $0 and $4,850 due from 21st Century Charter School @ Gary, Inc. and a payable to 21st Century Charter School @ Gary, Inc. in the amount of $1,379 and $27,229 for various payroll transactions between these entities.

**NOTE 6 - CHARTER AGREEMENT**

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 Ball State University an annual administrative fee equal to 3% of State tuition support, along with other licensing fees. Payments under this charter agreement were $22,896 and $24,385 for the years ended June 30, 2017 and 2016, respectively.

(Continued)

**NOTE 7 - PENSION PLANS**

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the plan. There were no employer matching contributions to the plan for the years ended June 30, 2017 and 2016.

The School participates in the Indiana Public Retirement System (INPRS). INPRS includes both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). PERF is a defined benefit pension plan. PERF is a cost sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. TRF is a defined benefit pension plan. TRF is a cost-sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The School employees are required to contribute three percent of their annual covered salary. The School is required to contribute an actuarially determined rate determined annually for PERF and TRF. The School's expense for the years ended June 30, 2017 and 2016 were $49,520 and $42,436, respectively.

## SUPPLEMENTARY INFORMATION

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

Indiana State Board of Accounts Compliance Report of Gary Middle College, Inc.

The above 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.*

INDIANA STATE BOARD OF ACCOUNTS
COMPLIANCE REPORT OF
**GARY MIDDLE COLLEGE, INC.**

LAKE COUNTY, INDIANA
July 1, 2016 to June 30, 2017

GARY MIDDLE COLLEGE, INC.

LAKE COUNTY, INDIANA
July 1, 2016 to June 30, 2017

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GARY MIDDLE COLLEGE, INC.
SCHOOL OFFICIALS

| Office | Official | Term |
|---|---|---|
| Principal | Joe Arredondo | July 1, 2016 to June 30, 2017 |
| Treasurer | Dana Johnson Teasley | July 1, 2016 to June 30, 2017 |
| President of the Charter Board | Arlene Colvin | July 1, 2016 to June 30, 2017 |

INDEPENDENT ACCOUNTANTS REPORT ON COMPLIANCE
WITH GUIDELINES FOR THE AUDITS OF CHARTER
SCHOOLS PERFORMED BY PRIVATE EXAMINERS

Board of Directors
Gary Middle College, Inc.
Gary, Indiana

We have audited the financial statements of Gary Middle College, Inc. ("School") as of and for the year ended June 30, 2017, and have issued our report thereon, dated January 31, 2018.

In connection with that audit and with our consideration of School's internal control as required by the *Guidelines for the Audits of Charter Schools Performed by Private Examiners* ("Guide"), issued by the Indiana State Board of Accounts, we performed procedures prescribed under the Guide for the year ended June 30, 2017.

As required by the Guide, we performed procedures to test compliance with the requirements that are applicable to the School. Our procedures were substantially narrower in scope than an audit, the objective of which is the expression of an opinion on the School's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance with those requirements, which is described in the accompanying Schedule of Findings as item 17-001.

The purpose of this report is solely to describe the scope of our testing over compliance with the requirements prescribed under the Guide and the results of that testing, and not to provide a legal determination of compliance with those requirements. Accordingly, this report is not suitable for any other purpose.

The School's response to the finding identified is described in the accompanying Schedule of Findings. The School's response was not subjected to the procedures applied and, accordingly, we express no opinion on it.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
January 31, 2018

## FINDING 17-001: CREDIT CARDS

**Criteria:** Part 10 of the Indiana Charter School Manual states in part, "Payment shall not be made on the basis of a statement or a credit card slip only. Procedures for payments shall be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee shall be the responsibility of that officer or employee."

**Condition**: During our testing of travel expenditures, it was noted that for multiple transactions, in our review of two months' of credit card statements, the School did not maintain a copy of a receipt to support the expenditure. These transactions related to one card-holder.

**Recommendation**: We recommend the School issue, and retain copies of, receipts at the time of the transaction for all receipts of funds. All receipts should be reviewed and acknowledged by signature of the Treasurer, or equivalent.

**Management Response**: The School has reviewed the credit card receipts issue, and has found that all of the expenses aligned properly with the line items detailed on the credit card statement, and no funds are unaccounted for or have been improperly spent. However, the school recognizes the need for better record-keeping in this area, and will review its receipt policy and will ensure that a better job is done maintaining receipts and records in the future.

The contents of this report were discussed on November 30, 2017, with Dana Johnson Teasley, Treasurer. The Official Response has been made a part of this report and may be found immediately following the finding on page 3.

Geist Montessori Academy

# MONTESSORI ACADEMY AT GEIST, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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*Independent Auditors' Report*

The Board of Directors
Montessori Academy at Geist, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Montessori Academy at Geist, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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.

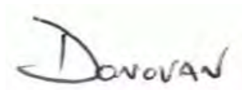
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Montessori Academy at Geist, Inc., as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN



Indianapolis, Indiana
December 14, 2017

# MONTESSORI ACADEMY AT GEIST, INC.

## STATEMENTS OF FINANCIAL POSITION

## June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 2,338,340 | $ 2,728,959 |
| Accounts receivable | 9,059 | 7,549 |
| Due from affiliated entity | 67,207 | 29,933 |
| Prepaid expenses | 38,126 | 38,126 |
| *Total current assets* | 2,452,732 | 2,804,567 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 557,659 | - |
| Leasehold improvements | 184,893 | 163,687 |
| Furniture and equipment | 287,720 | 282,745 |
| Textbooks | 11,172 | 11,172 |
| Less: accumulated depreciation | (335,224) | (304,126) |
| *Property and equipment, net* | 706,220 | 153,478 |
| **OTHER ASSETS** | | |
| Security deposit | 11,000 | 11,000 |
| **TOTAL ASSETS** | $ 3,169,952 | $ 2,969,045 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of note payable | $ 218,137 | $ 109,068 |
| Accounts payable and accrued expenses | 85,284 | 85,999 |
| Deferred revenue | 40,628 | 43,023 |
| Refundable advances | 17,166 | 12,000 |
| *Total current liabilities* | 361,215 | 250,090 |
| **NOTE PAYABLE, NET OF CURRENT PORTION** | 1,854,163 | 2,072,300 |
| *Total liabilities* | 2,215,378 | 2,322,390 |
| **NET ASSETS, UNRESTRICTED** | 954,574 | 646,655 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 3,169,952 | $ 2,969,045 |

See independent auditors' report and accompanying notes to the financial statements

## MONTESSORI ACADEMY AT GEIST, INC.

### STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 2,282,495 | $ 2,203,291 |
| Grant revenue | 354,692 | 241,169 |
| Student fees | 76,072 | 79,505 |
| Other income | 59,940 | 112,457 |
| *Total revenue and support* | 2,773,199 | 2,636,422 |
| **EXPENSES** | | |
| Program services | 1,960,825 | 1,897,888 |
| Management and general | 504,455 | 435,520 |
| *Total expenses* | 2,465,280 | 2,333,408 |
| **CHANGE IN NET ASSETS** | 307,919 | 303,014 |
| **NET ASSETS, BEGINNING OF YEAR** | 646,655 | 343,641 |
| **NET ASSETS, END OF YEAR** | $ 954,574 | $ 646,655 |

See independent auditors' report and accompanying notes to the financial statements

## MONTESSORI ACADEMY AT GEIST, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program | Management and General | Total | Program | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 1,067,196 | $ 274,815 | $ 1,342,011 | $ 977,645 | $ 249,633 | $ 1,227,278 |
| Employee benefits | 166,156 | 62,232 | 228,388 | 170,978 | 63,466 | 234,444 |
| Professional services | 169,994 | 15,693 | 185,687 | 148,362 | 10,564 | 158,926 |
| Authorizer oversight fees | - | 56,819 | 56,819 | - | 53,839 | 53,839 |
| Staff development and recruitment | 31,440 | - | 31,440 | 16,725 | - | 16,725 |
| Food costs | 2,802 | - | 2,802 | 3,093 | - | 3,093 |
| Property rental and equipment | 14,577 | - | 14,577 | 23,526 | - | 23,526 |
| Classroom, kitchen, and office supplies | 77,358 | 460 | 77,818 | 76,912 | 6,251 | 83,163 |
| Occupancy | 385,143 | - | 385,143 | 423,148 | - | 423,148 |
| Depreciation | 31,098 | - | 31,098 | 35,786 | - | 35,786 |
| Advertising | - | - | - | - | 7,074 | 7,074 |
| Insurance | - | 27,963 | 27,963 | - | 25,621 | 25,621 |
| Interest | - | 22,195 | 22,195 | - | - | - |
| Repairs and maintenance | 1,475 | - | 1,475 | 2,494 | - | 2,494 |
| Other | 13,586 | 44,278 | 57,864 | 19,219 | 19,072 | 38,291 |
| *Total functional expenses* | $ 1,960,825 | $ 504,455 | $ 2,465,280 | $ 1,897,888 | $ 435,520 | $ 2,333,408 |

See independent auditors' report and accompanying notes to the financial statements

# MONTESSORI ACADEMY AT GEIST, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 307,919 | $ 303,014 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 31,098 | 35,786 |
| Change in certain assets and liabilities: | | |
| Accounts receivable | (1,510) | (3,440) |
| Due from affiliated entity | (37,274) | (21,994) |
| Accounts payable and accrued expenses | (715) | (14,302) |
| Deferred revenue | (2,395) | 32,856 |
| Refundable advances | 5,166 | 1,978 |
| *Net cash provided by operating activities* | 302,289 | 333,898 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (583,840) | (33,621) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from note payable | - | 2,181,368 |
| Principal payments on note payable | (109,068) | - |
| *Net cash provided by (used in) financing activities* | (109,068) | 2,181,368 |
| **NET CHANGE IN CASH** | (390,619) | 2,481,645 |
| **CASH, BEGINNING OF YEAR** | 2,728,959 | 247,314 |
| **CASH, END OF YEAR** | $ 2,338,340 | $ 2,728,959 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 11,833 | $ - |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Montessori Academy at Geist, 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 is sponsored by Ball State University. The School serves approximately 375 students in grades kindergarten to eight by providing an alternative to the traditional public schools.

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 is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

Student fees are recognized in the academic school year to which the payments pertain.

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 to student fees. The School believes that all amounts are collectible, thus an allowance for doubtful accounts is not deemed necessary.

Due from Affiliated Entity – The School pays expenses and salaries for the Geist Montessori Pre-Kindergarten ("Pre-K") program, which is a separate entity from the School. Several times during the year, Pre-K pays the School the balance of the account. In addition, Pre-K's annual net revenues in excess of expenses is contributed to the School and reported in other income ($50,000 and $48,846 for 2017 and 2016, respectively). As of June 30, 2017 and 2016, Pre-K owes the School $67,207 and $29,933, respectively.

Taxes on Income – The School 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, and minor replacement costs 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 | 9 to 12 years |
| Furniture and equipment | 3 to 5 years |
| Textbooks | 3 years |

Deferred Revenue – Deferred revenue consists of student fee deposits received as part of the enrollment process that apply to the subsequent academic school year.

Reclassifications – Certain expenses on the statement of functional expenses for the year ended June 30, 2016 have been reclassified to match the 2017 presentation. The reclassifications had no effect on net assets as previously stated.

Subsequent Events – The School evaluated subsequent events through December 14, 2017, 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.

## NOTE 2 - NOTE PAYABLE

The note payable consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to State Board of Education, payable $109,068 semi-annually (January 1 and July 1) plus interest at 1.00% per annum. | $ 2,072,300 | $ 2,181,368 |
| Less: current portion | (218,137) | (109,068) |
| Long-term portion | $ 1,854,163 | $ 2,072,300 |

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School's future tuition support payments on the School's basic grant.

**NOTE 2 - NOTE PAYABLE, Continued**

Principal maturities of the note payable are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 218,137 |
| 2019 | | 218,137 |
| 2020 | | 218,137 |
| 2021 | | 218,137 |
| 2022 | | 218,137 |
| Thereafter | | 981,615 |
| | $ | 2,072,300 |

**NOTE 3 - REFUNDABLE ADVANCES**

The School has been awarded grants to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017 and 2016, the School had refundable grant advances in excess of expenditures of $17,166 and $12,000, respectively.

**NOTE 4 - LEASES**

The School leases its education facilities as well as certain items of office equipment under operating leases for terms from three to seven years. The facility leases include options to renew and provisions for rate escalation based on the Consumer Price Index. Under one facility lease, the School is responsible for insurance, taxes, repairs and utilities. Another facility lease provides for early termination by the School subject to a buyout provision. Expense under operating leases for the years ended June 30, 2017 and 2016 were $363,574 and $392,828, respectively.

Future minimum lease obligations under noncancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 387,499 |
| 2019 | | 318,499 |
| 2020 | | 61,358 |

**NOTE 5 - RETIREMENT PLAN**

Retirement benefits for School employees are provided under a Section 403(b) defined contribution retirement plan. Under the plan, the School matches 100% of each participant's contributions not to exceed 7% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the Board of Directors. No discretionary contributions were made in 2017 and 2016. Retirement plan expense for the years ended June 30, 2017 and 2016 was $31,940 and $30,973, respectively.

## NOTE 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. Expense under this charter agreement was $56,819 and $53,839 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

## NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Hancock 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 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. Cash deposits are maintained at BMO Harris Bank and are insured up to the FDIC insurance limit.

## NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services.

# MONTESSORI ACADEMY AT GEIST, INC
## OTHER REPORT
## For the Year Ended June 30, 2017

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

Supplemental Audit Report of Montessori Academy at Geist, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

# MONTESSORI ACADEMY AT GEIST, INC.

HANCOCK COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# MONTESSORI ACADEMY AT GEIST, INC.
## HANCOCK COUNTY, INDIANA
### School Officials
### July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Robert McGauley | 07/01/16 – 06/30/17 |
| Executive Director | Susan Fries | 07/01/16 – 06/30/17 |
| Controller | Karinda Holland | 07/01/16 – 06/30/17 |

Donovan CPAs

The Board of Directors
Montessori Academy at Geist, Inc.

We have audited the financial statements of Montessori Academy at Geist, Inc. (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated December 14, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 14, 2017

## MINIMUM INTERNAL CONTROL STANDARDS

Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

The School's certification on the Gateway platform on the adoption of and training on internal control standards was made incorrectly. The school personnel did not understand the requirements set forth by IC 5-11-1-27(g) prior to the certification and have since realized that they should have answered that the School was not in compliance.

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

# MONTESSORI ACADEMY AT GEIST, INC.
## HANCOCK COUNTY, INDIANA
## Exit Conference
## July 1, 2016 to June 30, 2017

The contents of this report were discussed on December 14, 2017 with Susan Fries (Executive Director) and Karinda Holland (Controller). The Official Response has been made a part of this report and may be found on page 5.

# MONTESSORI ACADEMY AT GEIST, INC.
## HANCOCK COUNTY, INDIANA
## Official Response
## July 1, 2016 to June 30, 2017

**OFFICIAL RESPONSE TO FINDING**

In response to the finding about not being in compliance with the requirements set forth by IC 5-11-1-27(g), Geist Montessori Academy will complete this training and ensure that we are in compliance by January 31, 2018.

Hoosier Academies Virtual Charter School
Hoosier Academy - Indianapolis
Insight School of Indiana

# HOOSIER ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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Donovan CPAs

*Independent Auditors' Report*

The Board of Directors
Hoosier Academy, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Hoosier Academy, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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, in 2013, the Indiana Legislature passed amendments to the Indiana Charter Schools Act that resulted in the suspension of funding in the amount of $4,996,296. Hoosier Academy, Inc. believes this was not the intent of the legislation and has appealed 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 in its full amount of $4,996,296 on its statements of financial position as of June 30, 2017 and 2016. Accounting principles generally accepted in the United States of America require a potential gain that is contingent upon a future event be recognized when the amount is realized. If Hoosier Academy, Inc. were to recognize this gain contingency when realized, a write down of receivables in the amount of $4,996,296 would be required as of June 30, 2017 and 2016. Accordingly, unrestricted net assets as of June 30, 2017 and 2016 would be reduced by this 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, Inc. as of June 30, 2017 and 2016 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Likewise, the Schedules of Financial Position by School on pages 16 and 17 and the Schedules of Activities and Change in Net Assets by School on pages 18 and 19 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of Hoosier Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hoosier Academy, Inc.'s internal control over financial reporting and compliance.

DONOVAN

Donovan

Indianapolis, Indiana
December 12, 2017

# HOOSIER ACADEMY, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 1,381,143 | $ 947,249 |
| Accounts receivable: | | |
| State education support | 4,996,296 | 4,996,296 |
| Grants | 336,009 | 286,859 |
| K12 Classroom, LLC | 39,985 | 22,436 |
| Prepaid expenses | 48,564 | 47,501 |
| *Total current assets* | 6,801,997 | 6,300,341 |
| **PROPERTY AND EQUIPMENT** | | |
| Leasehold improvements | 777,312 | 777,312 |
| Furniture and equipment | 1,345,285 | 1,286,034 |
| Less: accumulated depreciation | (1,665,980) | (1,510,705) |
| *Property and equipment, net* | 456,617 | 552,641 |
| **TOTAL ASSETS** | $ 7,258,614 | $ 6,852,982 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses: | | |
| K-12 Classroom, LLC | $ 5,249,895 | $ 4,864,572 |
| Other | 1,971,295 | 1,971,268 |
| Refundable advance | 37,424 | 17,142 |
| *Total current liabilities* | 7,258,614 | 6,852,982 |
| **NET ASSETS, UNRESTRICTED** | - | - |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 7,258,614 | $ 6,852,982 |

See independent auditors' report and accompanying notes to the financial statements

# HOOSIER ACADEMY, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 24,819,205 | $ 22,869,344 |
| Grant revenue | 1,700,034 | 1,347,787 |
| Interest income | 2,127 | 4,091 |
| Other | 35,796 | 27,836 |
| *Total revenue and support* | 26,557,162 | 24,249,058 |
| **EXPENSES** | | |
| Program services | 23,358,949 | 19,739,493 |
| Management and general | 3,198,213 | 4,509,565 |
| *Total expenses* | 26,557,162 | 24,249,058 |
| **CHANGE IN NET ASSETS** | - | - |
| **NET ASSETS, BEGINNING OF YEAR** | - | - |
| **NET ASSETS, END OF YEAR** | $ - | $ - |

See independent auditors' report and accompanying notes to the financial statements

# HOOSIER ACADEMY, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 6,593,538 | $ 397,707 | $ 6,991,245 | $ 5,222,581 | $ 584,653 | $ 5,807,234 |
| Employee benefits | 1,611,538 | 66,052 | 1,677,590 | 1,466,159 | 135,455 | 1,601,614 |
| Staff development and recruitment | 234,184 | - | 234,184 | 124,338 | - | 124,338 |
| Professional services | 3,209,089 | 648,547 | 3,857,636 | 2,596,432 | 425,328 | 3,021,760 |
| Management services | - | 1,074,989 | 1,074,989 | - | 2,297,129 | 2,297,129 |
| Food costs | 8,860 | - | 8,860 | 11,646 | - | 11,646 |
| Authorizer oversight fee | - | 546,674 | 546,674 | - | 538,000 | 538,000 |
| Equipment rental and maintenance | 2,024,243 | - | 2,024,243 | 1,372,997 | - | 1,372,997 |
| Classroom and office supplies and fees | 9,189,212 | 76,677 | 9,265,889 | 8,162,077 | 166,978 | 8,329,055 |
| Occupancy | 241,831 | - | 241,831 | 506,831 | - | 506,831 |
| Depreciation | 155,275 | - | 155,275 | 136,260 | - | 136,260 |
| Other | 91,179 | 387,567 | 478,746 | 140,172 | 362,022 | 502,194 |
| *Total functional expenses* | $ 23,358,949 | $ 3,198,213 | $ 26,557,162 | $ 19,739,493 | $ 4,509,565 | $ 24,249,058 |

# HOOSIER ACADEMY, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ - | $ - |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation | 155,275 | 136,260 |
| Changes in certain assets and liabilities: | | |
| Accounts receivable | (66,699) | 590,520 |
| Prepaid expenses | (1,063) | 45,400 |
| Accounts payable and accrued expenses | 385,350 | (1,306,697) |
| Refundable advance | 20,282 | 11,434 |
| *Net cash provided by (used in) operating activities* | 493,145 | (523,083) |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (59,251) | (115,347) |
| **NET CHANGE IN CASH** | 433,894 | (638,430) |
| **CASH, BEGINNING OF YEAR** | 947,249 | 1,585,679 |
| **CASH, END OF YEAR** | $ 1,381,143 | $ 947,249 |

See independent auditors' report and accompanying notes to the financial statements

# HOOSIER ACADEMY, INC.
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Hoosier Academy, Inc. ("Hoosier Academy") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, and is the organizer and governing body of three charter schools located in Indianapolis, Indiana:

- *Hoosier Academies Indianapolis* is a blended learning program serving students in grades K-12. Enrollment during the 2016-2017 school year was approximately 230 students.
- *Hoosier Academies Virtual School* is a fully virtual or online program serving students in grades K-12. Enrollment during the 2016-2017 school year was approximately 3,150 students.
- *Insight School of Indiana* started in the 2016-2017 school year and is a fully virtual or online program serving students in grades 7-12 who have struggled in their education. Enrollment during the 2016-2017 school year was approximately 700 students.

Each of the schools is a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. Hoosier Academy, Inc. 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, Hoosier Academy receives an amount per student similar to the funding received by other public schools in Indiana. Funding from the State of Indiana is based on enrollment and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A portion of Hoosier Academy's revenue is the product of cost reimbursement grants. Accordingly, Hoosier Academy 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 federal programs and legislation enacted by the State of Indiana. Hoosier Academy believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary. See Note 2 for additional information.

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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $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 | 2 to 5 years |

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, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require Hoosier Academy 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 has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ended after 2013 are open to audit for both federal and state purposes.

Subsequent Events – Hoosier Academy evaluated subsequent events through December 12, 2017, 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.

## NOTE 2 - ACCOUNTS RECEIVABLE

The School's accounts receivable balance consists primarily of amounts due from the State of Indiana for the operating periods in which State funding has not been received. As of June 30, 2013, the State forgave the remaining balance of the School's operating loan made through the Common School Fund. As the loan was provided to finance the School's operations when revenue was not received, the School has established an allowance against the accounts receivable balance in the amount forgiven.

## NOTE 2 - ACCOUNTS RECEIVABLE, Continued

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2017 and 2016:

| | | |
|---|---|---|
| Tuition support | $ | 8,993,977 |
| Special education grant | | 1,190,101 |
| Prime time grant | | 10,804 |
| Honors grant | | 1,350 |
| | | 10,196,232 |
| Less: allowance for Common School loan forgiveness | | (5,199,936) |
| | $ | 4,996,296 |

Hoosier Academy'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 were defined in the statute.

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. Hoosier Academy applied for and was forgiven from repaying the balance of its indebtedness plus accrued interest of $5,199,936 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 and the executive branch 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 and administrative efforts are being made to resolve any outstanding obligations of the State.

## NOTE 3 - LEASES

Hoosier Academy leases its 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 2018 and June 2018, respectively. Hoosier Academy also leases certain items of office equipment under an operating lease, which provides for monthly payments through August 2020. Rent expense for the years ended June 30, 2017 and 2016 under these operating leases was $241,831 and $506,831, respectively. The expense for the year ended June 30, 2017 was reduced by $233,373 due to the deficit credits received by K12 Classroom, LLC (Note 4).

**NOTE 3 - LEASES, Continued**

Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 408,645 |
| 2019 | 39,171 |
| 2020 | 10,704 |
| 2021 | 1,784 |

**NOTE 4 - COMMITMENTS**

Hoosier Academy operates its schools under charters granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charters, Hoosier Academy has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Payments under the charter agreements were $546,674 and $538,000 for the years ended June 30, 2017 and 2016, respectively. The charters remain in effect for Hoosier Academies Indianapolis, Hoosier Academies Virtual School, and Insight School of Indiana until June 30, 2021, June 30, 2018, and June 30, 2019, respectively, and are renewable thereafter by mutual consent.

Hoosier Academy has contracted with K12 Classroom, LLC to provide administrative and technology services. Under the terms of the agreement, Hoosier Academy has agreed to pay an amount equal to 22% of revenues, as defined, for such services. Such fees for the years ended June 30, 2017 and 2016 were $5,821,968 and $5,493,418, respectively. Hoosier Academy also purchases certain other curriculum materials and supplies for which it is billed as goods and services are received. Such purchases aggregated $12,817,670 and $13,470,980 for the years ended June 30, 2017 and 2016, respectively. This agreement remains in effect until June 30, 2021.

K12 Classroom, LLC has agreed to issue credits against the amounts billed for services and products provided, if needed, to ensure that Hoosier Academy does not end a fiscal year with a financial deficit.

**NOTE 4 - COMMITMENTS, Continued**

For the years ended June 30, 2017 and 2016, service fees were reduced as follows:

| | | Administrative and Technology Fees | | Other Service Fees |
|---|---|---|---|---|
| Year Ended June 30, 2017 | | | | |
| Charges per contract | $ | 5,821,968 | $ | 12,817,670 |
| Credit issued by K12 Classroom LLC | | (3,073,042) | | (990,349) |
| Net charges | $ | 2,748,926 | $ | 11,827,321 |
| Year Ended June 30, 2016 | | | | |
| Charges per contract | $ | 5,493,418 | $ | 13,470,980 |
| Credit issued by K12 Classroom LLC | | (1,817,800) | | (3,330,342) |
| Net charges | $ | 3,675,618 | $ | 10,140,638 |

The deficit credits provided by K12 Classroom, LLC are subject to repayment if Hoosier Academy 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. Hoosier Academy is not able to estimate the amount of the repayment, if any, expected to be made in future years.

**NOTE 5 - RETIREMENT PLANS**

Hoosier Academy provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel 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 determined annually by the INPRS Board. For the years ended June 30, 2017 and 2016, Hoosier Academy contributed 7.5% of compensation for eligible teaching personnel to TRF. Should Hoosier Academy elect to withdraw from TRF, it could be subject to a withdrawal fee. Hoosier Academy's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2016 (the latest year reported), TRF was more than 80% funded.

In lieu of TRF, employees can opt to participate in a Section 403(b) plan sponsored by Hoosier Academy. Under this plan, Hoosier Academy contributes 7.5% of compensation, as defined. Additional contributions may be made at the discretion of the Board of Directors. No discretionary contributions were made in 2017 or 2016. Retirement plan expense under both plans was $449,645 and $361,088 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 6 - RISKS AND UNCERTAINTIES**

Hoosier Academy provides educational instruction services to families residing in Marion and surrounding counties in Indiana, and to students throughout the State of Indiana through its virtual curriculum, 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 Hoosier Academy. Additionally, Hoosier Academy 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 Hoosier Academy to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2017, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits are maintained at PNC Bank and are insured up to the FDIC insurance limit.

**NOTE 7 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

# HOOSIER ACADEMY, INC.
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### For the Year Ended June 30, 2017

| Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title | Federal CFDA Number | Pass-Through Entity Identifying Number | | Total Federal Awards Expended |
|---|---|---|---|---|
| U.S. DEPARTMENT OF EDUCATION | | | | |
| Pass-through Indiana Department of Education | | | | |
| Title I, Part A Cluster | | | | |
| Grants to Local Educational Agencies | 84.010 | | $ | 618,955 |
| Special Education Cluster | | | | |
| Special Education - Grants to States | 84.027 | 14217-538-PN01<br>14216-538-PN01<br>14217-523-PN01<br>14216-523-PN01 | | 500,375 |
| Improving Teacher Quality State Grants | 84.367 | | | 163,941 |
| Total federal awards expended | | | $ | 1,283,271 |

See independent auditors’ report and accompanying notes to this schedule

# HOOSIER ACADEMY, INC.
## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### For the Year Ended June 30, 2017

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Hoosier Academy, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Hoosier Academy, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Hoosier Academy, Inc.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

# HOOSIER ACADEMY, INC.

## SCHEDULE OF FINANCIAL POSITION BY SCHOOL

### June 30, 2017

| | Hoosier Academies Indianapolis | Hoosier Academies Virtual School | Insight School of Indiana | Eliminating Entries | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash | $ 31,872 | $ 1,203,072 | $ 146,199 | $ - | $ 1,381,143 |
| Accounts receivable: | | | | | |
| State education support | 163,940 | 4,832,356 | - | - | 4,996,296 |
| Grants | 34,190 | 271,174 | 30,645 | - | 336,009 |
| K12 Classroom, LLC | 5,734 | - | 34,251 | - | 39,985 |
| Intercompany | - | 219,777 | - | (219,777) | - |
| Prepaid expenses | 43,078 | 4,410 | 1,076 | - | 48,564 |
| *Total current assets* | 278,814 | 6,530,789 | 212,171 | (219,777) | 6,801,997 |
| **PROPERTY AND EQUIPMENT** | | | | | |
| Leasehold improvements | 777,312 | - | - | - | 777,312 |
| Furniture and equipment | 956,508 | 359,726 | 29,051 | - | 1,345,285 |
| Less: accumulated depreciation | (1,320,597) | (339,382) | (6,001) | - | (1,665,980) |
| *Property and equipment, net* | 413,223 | 20,344 | 23,050 | - | 456,617 |
| **TOTAL ASSETS** | $ 692,037 | $ 6,551,133 | $ 235,221 | $ (219,777) | $ 7,258,614 |
| **LIABILITIES AND NET ASSETS** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Accounts payable and accrued expenses: | | | | | |
| K12 Classroom, LLC | $ 229,348 | $ 5,020,547 | $ - | $ - | $ 5,249,895 |
| Intercompany | 219,777 | - | - | (219,777) | - |
| Other | 237,290 | 1,498,784 | 235,221 | - | 1,971,295 |
| Refundable advance | 5,622 | 31,802 | - | - | 37,424 |
| *Total current liabilities* | 692,037 | 6,551,133 | 235,221 | (219,777) | 7,258,614 |
| **NET ASSETS, Unrestricted** | - | - | - | - | - |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 692,037 | $ 6,551,133 | $ 235,221 | $ (219,777) | $ 7,258,614 |

See independent auditors' report

# HOOSIER ACADEMY, INC.

## SCHEDULE OF FINANCIAL POSITION BY SCHOOL

### June 30, 2016

| | Hoosier Academies Indianapolis | Hoosier Academies Virtual School | Total |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash | $ 132,707 | $ 814,542 | $ 947,249 |
| Accounts receivable: | | | |
| State education support | 163,940 | 4,832,356 | 4,996,296 |
| Grants | 21,888 | 264,971 | 286,859 |
| K12 Classroom, LLC | 14,843 | 7,593 | 22,436 |
| Prepaid expenses | 42,117 | 5,384 | 47,501 |
| *Total current assets* | 375,495 | 5,924,846 | 6,300,341 |
| **PROPERTY AND EQUIPMENT** | | | |
| Leasehold improvements | 777,312 | - | 777,312 |
| Furniture and equipment | 952,135 | 333,899 | 1,286,034 |
| Less: accumulated depreciation | (1,225,106) | (285,599) | (1,510,705) |
| *Property and equipment, net* | 504,341 | 48,300 | 552,641 |
| **TOTAL ASSETS** | $ 879,836 | $ 5,973,146 | $ 6,852,982 |
| **LIABILITIES AND NET ASSETS** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and accrued expenses: | | | |
| K12 Classroom, LLC | $ 522,981 | $ 4,341,591 | $ 4,864,572 |
| Other | 352,176 | 1,619,092 | 1,971,268 |
| Refundable advance | 4,679 | 12,463 | 17,142 |
| *Total current liabilities* | 879,836 | 5,973,146 | 6,852,982 |
| **NET ASSETS, Unrestricted** | - | - | - |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 879,836 | $ 5,973,146 | $ 6,852,982 |

See independent auditors' report

# HOOSIER ACADEMY, INC.

## SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

### For the Year Ended June 30, 2017

| | Hoosier Academies Indianapolis | Hoosier Academies Virtual School | Insight School of Indiana | Total |
|---|---|---|---|---|
| **REVENUE AND SUPPORT** | | | | |
| State education support | $ 1,439,274 | $ 18,972,296 | $ 4,407,635 | $ 24,819,205 |
| Grant revenue | 284,715 | 1,373,453 | 41,866 | 1,700,034 |
| Interest income | 232 | 1,895 | - | 2,127 |
| Other | 33,129 | 2,667 | - | 35,796 |
| *Total revenue and support* | 1,757,350 | 20,350,311 | 4,449,501 | 26,557,162 |
| **EXPENSES** | | | | |
| Program services | 1,563,768 | 17,640,557 | 4,154,624 | 23,358,949 |
| Management and general | 193,582 | 2,709,754 | 294,877 | 3,198,213 |
| *Total expenses* | 1,757,350 | 20,350,311 | 4,449,501 | 26,557,162 |
| **CHANGE IN NET ASSETS** | - | - | - | - |
| **NET ASSETS, BEGINNING OF YEAR** | - | - | - | - |
| **NET ASSETS, END OF YEAR** | $ - | $ - | $ - | $ - |

# HOOSIER ACADEMY, INC.

## SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

### For the Year Ended June 30, 2016

| | Hoosier Academies Indianapolis | Hoosier Academies Virtual School | Total |
|---|---|---|---|
| **REVENUE AND SUPPORT** | | | |
| State education support | $ 1,530,611 | $ 21,338,733 | $ 22,869,344 |
| Grant revenue | 229,382 | 1,118,405 | 1,347,787 |
| Interest income | 681 | 3,410 | 4,091 |
| Other | 22,938 | 4,898 | 27,836 |
| *Total revenue and support* | 1,783,612 | 22,465,446 | 24,249,058 |
| **EXPENSES** | | | |
| Program services | 1,778,116 | 17,961,377 | 19,739,493 |
| Management and general | 5,496 | 4,504,069 | 4,509,565 |
| *Total expenses* | 1,783,612 | 22,465,446 | 24,249,058 |
| **CHANGE IN NET ASSETS** | - | - | - |
| **NET ASSETS, BEGINNING OF YEAR** | - | - | - |
| **NET ASSETS, END OF YEAR** | $ - | $ - | $ - |

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Hoosier Academy, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hoosier Academy, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hoosier Academy, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hoosier Academy, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Hoosier Academy, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hoosier Academy, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hoosier Academy, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hoosier Academy, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

Donovan

Indianapolis, Indiana
December 12, 2017

Donovan CPAs

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *THE UNIFORM GUIDANCE***

The Board of Directors
Hoosier Academy, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Hoosier Academy, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Hoosier Academy, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hoosier Academy, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hoosier Academy, Inc.'s compliance.

**Opinion on Each Major Federal Program**

In our opinion, Hoosier Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control over Compliance**

Management of Hoosier Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hoosier Academy, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hoosier Academy, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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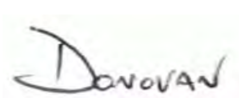

Indianapolis, Indiana
December 12, 2017

# HOOSIER ACADEMY, INC.
## SCHEDULE OF FINDINGS AND QUESTIONED COSTS
## For the Year Ended June 30, 2017

### I. Summary of Auditors' Results

***Financial Statements***

| | |
|---|---|
| Type of auditors' report issued: | Qualified Opinion |
| Internal control over financial reporting: | |
| • Material weakness identified? | No |
| • Significant deficiency identified? | None Reported |
| Noncompliance material to financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| • Material weakness identified? | No |
| • Significant deficiency identified? | None Reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 84.010 | Title I Part A Cluster<br>Grants to Local Educational Agencies |

| | |
|---|---|
| Dollar threshold use to distinguish between Type A and Type B programs: | $750,000 |
| Auditee qualified as low-risk auditee? | No |

### II. Financial Statement Findings

No matters are reportable.

### III. Federal Award Findings and Questioned Costs

No matters are reportable.

# HOOSIER ACADEMY, INC.
## OTHER REPORT
## For the Year Ended June 30, 2017

The reports presented herein were prepared in addition to another official report prepared for Hoosier Academy, Inc. as listed below:

Supplemental Audit Report of Hoosier 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*.

SUPPLEMENTAL AUDIT REPORT

OF

**HOOSIER ACADEMY, INC.**

MARION COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# HOOSIER ACADEMY, INC.
## MARION COUNTY, INDIANA
### School Officials
### July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| Board President | John Marske | 07/01/16 – 06/30/17 |
| Head of School | Byron Ernest | 07/01/16 – 06/30/17 |
| School Treasurer | Byron Ernest | 07/01/16 – 06/30/17 |

The Board of Directors
Hoosier Academy, Inc.

We have audited the financial statements of Hoosier Academy, Inc. (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated December 12, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 12, 2017

**www.cpadonovan.com**
**Westside Office** | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411
**Northside Office** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

## CASH RECEIPTS AND DEPOSITS

In our audit, we examined records relating to cash received at the schools pertaining to such items as testing, reimbursements, and room rentals. We selected 25 receipts from the School's receipt books for the year. From these cash receipts transactions, we noted the following issues:

- The School was unable to locate receipt books for the period under review prior to November 30, 2016. Only master receipts, which are used to accumulate individual receipts into a total deposit amount, were available.

- For 3 of the 25 receipts tested, the receipt did not include a date that would allow us to determine if the funds were deposited in a timely manner.

- For 5 of the 25 receipts tested, the receipt did not show the form of payment (cash, check, etc.).

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

## MINIMUM INTERNAL CONTROL STANDARDS

Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27 (g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27 (g))

# HOOSIER ACADEMY, INC.
## MARION COUNTY, INDIANA
### Exit Conference
### July 1, 2016 to June 30, 2017

The contents of this report were discussed on December 12, 2017 with John Marske (Board President), Rachel Goodwin (Head of Schools), Kathy Coe (Operations Manager), Mary Markert (North Region Finance Director, K12, Inc.), and Patti Ashley (Finance Manager, K12, Inc.). The Official Response has been made a part of this report and may be found on page 5.

Based on the findings, Hoosier Academies will be addressing the comments made in the official financial audit report by:

*1st Finding:*

- The School was unable to locate receipt books for the period under review prior to November 30, 2016. Only master receipts, which are used to accumulate individual receipts into a total deposit amount, were available.
- For 3 of the 25 receipts tested, the receipt did not include a date that would allow us to determine if the funds were deposited in a timely manner.
- For 5 of the 25 receipts tested, the receipt did not show the form of payment (cash, check, etc.)

**Response to Findings:**

1. Additional processes have been instituted to ensure that cash receipts are available and able to be matched to master receipts.
   - Cash receipts will now include the master receipt number to better allow for matching
   - Master receipts will now include cash receipt numbers
2. Deposits will be made the next business day following receipt of funds

*2nd Finding:*

- Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27.

**Response to Findings:**

1. Developing procedure and training plan to ensure that IC 5-11-1-27, Part (g) is met and in place for FY 2018.

Inspire Academy

# MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
# d/b/a INSPIRE ACADEMY

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

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Donovan CPAs

***Independent Auditors' Report***

The Board of Directors
Muncie Public Charter School of Inquiry, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Muncie Public Charter School of Inquiry, Inc. d/b/a Inspire Academy, which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Muncie Public Charter School of Inquiry, Inc. d/b/a Inspire Academy as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
September 14, 2017

## MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
## d/b/a INSPIRE ACADEMY
## STATEMENTS OF FINANCIAL POSITION
## June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 150,890 | $ 118,499 |
| Grants receivable | 8,450 | 3,552 |
| Other receivables | - | 2,999 |
| Prepaid expenses | 27,316 | 23,476 |
| *Total current assets* | 186,656 | 148,526 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 76,880 | 76,880 |
| Building and improvements | 174,113 | 150,545 |
| Furniture and equipment | 261,484 | 223,580 |
| Textbooks | 4,426 | - |
| Less: accumulated depreciation | (187,651) | (137,206) |
| *Property and equipment, net* | 329,252 | 313,799 |
| **TOTAL ASSETS** | $ 515,908 | $ 462,325 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 61,106 | $ 51,572 |
| Current portion of capital lease obligation | 1,054 | 996 |
| *Total current liabilities* | 62,160 | 52,568 |
| **LONG-TERM LIABILITIES** | | |
| Note payable | 225,000 | 225,000 |
| Capital lease obligation, net of current portion | 3,044 | 4,104 |
| *Total long-term liabilities* | 228,044 | 229,104 |
| *Total liabilities* | 290,204 | 281,672 |
| **UNRESTRICTED NET ASSETS** | 225,704 | 180,653 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 515,908 | $ 462,325 |

See independent auditors' report and accompanying notes to the financial statements

## MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
## d/b/a INSPIRE ACADEMY
### STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| **REVENUE AND SUPPORT** | | | | | | |
| State education support | $ 1,310,734 | $ - | $ 1,310,734 | $ 1,241,988 | $ - | $ 1,241,988 |
| Grant revenue | 300,484 | - | 300,484 | 257,171 | - | 257,171 |
| Student fees | 17,707 | - | 17,707 | 12,023 | - | 12,023 |
| Contributions | 12,192 | - | 12,192 | 15,129 | - | 15,129 |
| Other income | 17,663 | - | 17,663 | 8,651 | - | 8,651 |
| Net assets released from restrictions | - | - | - | 7,945 | (7,945) | - |
| *Total revenue and support* | 1,658,780 | - | 1,658,780 | 1,542,907 | (7,945) | 1,534,962 |
| **EXPENSES** | | | | | | |
| Program services | 1,233,046 | - | 1,233,046 | 1,312,480 | - | 1,312,480 |
| Management and general | 380,683 | - | 380,683 | 332,665 | - | 332,665 |
| *Total expenses* | 1,613,729 | - | 1,613,729 | 1,645,145 | - | 1,645,145 |
| **CHANGE IN NET ASSETS** | 45,051 | - | 45,051 | (102,238) | (7,945) | (110,183) |
| **NET ASSETS, BEGINNING OF YEAR** | 180,653 | - | 180,653 | 282,891 | 7,945 | 290,836 |
| **NET ASSETS, END OF YEAR** | $ 225,704 | $ - | $ 225,704 | $ 180,653 | $ - | $ 180,653 |

See independent auditors' report and accompanying notes to the financial statements

## MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
## d/b/a INSPIRE ACADEMY
### STATEMENTS OF FUNCTIONAL EXPENSES
### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 567,404 | $ 189,061 | $ 756,465 | $ 583,044 | $ 155,988 | $ 739,032 |
| Employee benefits | 132,838 | 45,121 | 177,959 | 134,645 | 39,431 | 174,076 |
| Staff development | 77,292 | - | 77,292 | 81,310 | - | 81,310 |
| Professional services | 131,411 | 74,713 | 206,124 | 101,446 | 57,933 | 159,379 |
| Connectivity | 39,506 | - | 39,506 | 37,662 | - | 37,662 |
| Authorizer oversight fees | - | 26,598 | 26,598 | - | 26,449 | 26,449 |
| Food costs | 67,667 | - | 67,667 | 90,843 | - | 90,843 |
| Equipment | 12,038 | - | 12,038 | 9,502 | 215 | 9,717 |
| Classroom and office supplies | 29,228 | 7,415 | 36,643 | 24,855 | 5,214 | 30,069 |
| Occupancy | 117,685 | - | 117,685 | 183,167 | - | 183,167 |
| Depreciation | 50,445 | - | 50,445 | 56,039 | - | 56,039 |
| Interest | - | 266 | 266 | - | 126 | 126 |
| Insurance | - | 15,475 | 15,475 | - | 24,793 | 24,793 |
| Other | 7,532 | 22,034 | 29,566 | 9,967 | 22,516 | 32,483 |
| *Total functional expenses* | $ 1,233,046 | $ 380,683 | $ 1,613,729 | $ 1,312,480 | $ 332,665 | $ 1,645,145 |

See independent auditors' report and accompanying notes to the financial statements

**MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.**

**d/b/a INSPIRE ACADEMY**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 45,051 | $ (110,183) |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation | 50,445 | 56,039 |
| Change in certain assets and liabilities: | | |
| Grants receivable | (4,898) | 10,284 |
| Other receivables | 2,999 | (396) |
| Prepaid expenses | (3,840) | 291 |
| Accounts payable and accrued expenses | 9,534 | 2,850 |
| *Net cash provided by (used in) operating activities* | 99,291 | (41,115) |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (65,898) | (4,426) |
| **FINANCING ACTIVITIES** | | |
| Principal payments on capital lease obligation | (1,002) | (395) |
| **NET CHANGE IN CASH** | 32,391 | (45,936) |
| **CASH, BEGINNING OF YEAR** | 118,499 | 164,435 |
| **CASH, END OF YEAR** | $ 150,890 | $ 118,499 |

| | | |
|---|---|---|
| **SUPPLEMENTAL INFORMATION** | | |
| Land and building obtained under a note payable | $ - | $ 225,000 |
| Equipment obtained under a capital lease obligation | - | 5,495 |
| Cash paid for interest | 266 | 126 |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Muncie Public Charter School of Inquiry, Inc. d/b/a Inspire Academy (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. In 2017, the School served students in grades kindergarten to eighth by providing an alternative to the traditional elementary school program.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.

- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time. There were no temporarily restricted net assets as of June 30, 2017 and 2016.

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.

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.

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 monthly installments in July through June coinciding with 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.

Taxes on Income – Muncie Public Charter School of Inquiry, 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 years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued – 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

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 $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 range from three to five years for furniture and equipment; four years for textbooks; and forty years for building and improvements.

Subsequent Events – The School evaluated subsequent events through September 14, 2017, 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.

## NOTE 2 - NOTE PAYABLE

The School has a note payable due to The Roman Catholic Dioceses of Lafayette-in-Indiana, Inc. The note is payable in three equal installments of $75,000 each on July 1, 2019, 2020, and 2021 and is non-interest bearing. The note is secured by the school building.

Principal maturities of long-term debt are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ - |
| 2019 | - |
| 2020 | 75,000 |
| 2021 | 75,000 |
| 2022 | 75,000 |
| | $ 225,000 |

## NOTE 3 - LEASES

*Capital Lease Obligation*

The School leases equipment under a capital lease. At June 30, 2017, the cost and accumulated depreciation of the copier were $5,495 and $1,705, respectively.

Following is a schedule of future minimum lease payments under the capital lease for the years ending June 30 and present value of the net minimum lease payments as of June 30, 2017:

| | | |
|---|---|---|
| 2018 | $ | 1,266 |
| 2019 | | 1,266 |
| 2020 | | 1,266 |
| 2021 | | 771 |
| | | 4,569 |
| Less: amount representing interest | | (471) |
| | $ | 4,098 |

*Operating Lease*

During 2016, the School leased its facility under an operating lease. The facility lease required monthly payments over a 5-year term based on a rate of $10 per square foot of leased space (18,000 square feet as of June 30, 2016). Expense under this lease for the year ended June 30, 2016 was $165,000. The School terminated the lease effective June 30, 2016 (see Note 7 - Contingencies for further discussion).

## NOTE 4 - 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 $26,598 and $26,449 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

## NOTE 5 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Delaware 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 may result in additional liability to be imposed on the School.

## NOTE 6 - RETIREMENT PLANS

The School offers retirement benefits provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2016 (the latest year reported), both TRF and PERF were more than 80% funded.

In lieu of TRF or PERF, all employees are eligible to participate in a Section 403(b) defined contribution retirement plan sponsored by the School. Under this plan, the School contributed 7% of compensation as defined through October 31, 2014. Since that time, the School has opted to match employee contributions at a rate of 2.33 to 1, but not to exceed 7% of compensation. Additional contributions may also be made to the plan at the discretion of the Board of Directors. No discretionary contributions were made in 2017 or 2016.

Retirement plan expense under all plans was $34,016 and $28,066 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 7 - CONTINGENCIES

The School terminated its lease on its facility at 1620 S. Madison Street, Muncie, IN effective June 30, 2016, citing landlord non-performance. The lease was through June 30, 2018 and, as such, the School may be liable for remaining payments. As of the date of the audit report, there has been no legal claim filed by the lessor, The Housing Authority of the City of Muncie, Indiana.

## NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services.

Lighthouse Academies of Northwest Indiana, Inc.
(East Chicago Lighthouse Academy and
Gary Lighthouse Academy)

SUPPLEMENTAL AUDIT REPORT

OF

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

LAKE COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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**LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.**
**LAKE COUNTY, INDIANA**
**School Officials**
**July 1, 2016 to June 30, 2017**

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Kay F. Ward McDuffie | 07/01/16 – 06/30/17 |
| Superintendent | Dr. Sheri Miller-Williams | 07/01/16 – 06/30/17 |
| School Treasurer | Tina Dobson | 07/01/16 – 06/30/17 |

Donovan CPAs

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

We have audited the financial statements of Lighthouse Academies of Northwest Indiana, Inc. ("LANWI") as of and for the year ended June 30, 2017 and have issued our report thereon dated March 6, 2018. As part of our audit, we tested the LANWI's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe LANWI was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
March 6, 2018

## FINANCIAL REPORTING

Our examination of the semi-annual financial reports to the Indiana Department of Education (Form 9) for the period July 1, 2016 to June 30, 2017 revealed the following reportable issues:

1. Fund balances for federal grants did not reflect the true balances of the grant programs for either LANWI school.
2. Multiple fund balances on both LANWI schools were overdrawn. The overdrawn accounts were not a result of awaiting reimbursements.

A fund, as used in the Charter School Manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 3)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

## RECEIPTS AND DEPOSITS

We examined records relating to cash received at the schools pertaining to items such as extra-curricular activity fees, fundraisers, fees, and donations. We tested 25 receipts from both LANWI schools (50 in total). From transactions tested for Gary Lighthouse Charter School, we noted that 4 out of 25 receipts were not deposited in a timely manner.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

**CAPITAL ASSETS**

Neither LANWI school completed an annual inventory of fixed assets.

Every charter school must have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory must be recorded on the applicable Capital Assets Ledger. A complete inventory shall be taken for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 15)

**MINIMUM INTERNAL CONTROL STANDARDS**

Per review and discussion with school personnel, it was determined that the school was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

**LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.**
**LAKE COUNTY, INDIANA**
**Exit Conference**
**July 1, 2016 to June 30, 2017**

The contents of this report were discussed on February 28, 2018 with Tina Dobson (Indiana Controller, Lighthouse Academies, Inc.), Marcia Saulo (Chief Financial Officer, Lighthouse Academies, Inc.), and Dr. Kay F. Ward McDuffie (President of the Board of Directors). The Official Response has been made a part of this report and may be found on page 6.

# Lighthouse Academies, Inc.

February 28, 2018

Donovan
9245 N. Meridian St., Suite 302
Indianapolis, IN 46260
ATTN: Mr. BJ Lippert

RE: Responses to Lighthouse Academies of Northwest Indiana Supplemental Audit Report

Dear Sir:

**Financial Recording issues**

Audit Comment: Fund balances for federal grants did not reflect the true balances of grant reports

School response: A fund balance report will be created to balance funds and track expenditures and deposits. This will be balanced against reimbursement requests.

Audit Comment: Multiple fund balances on both NWI schools were overdrawn. The overdrawn accounts were not a result of awaiting reimbursements.

School response: A fund balance report will be created to balance funds and expenses will be reclassed to general fund to correct overdrawn fund balances.

**Receipts and Deposits**

Audit Comment: Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions.

School response: A policy was put in place for all receipts over $50 to be taken to the bank within 24 hours. Training on this policy will be provided to operation personnel.

**Capital Assets**

Audit Comment: Neither LANWI school completed an annual inventory of fixed assets.

School response: A physical inventory will be conducted in FY 2018.

**Minimum Internal Control Standards**

Audit Comment: Per review and discussion with school personnel, it was determined that the school was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

School response: Internal control standards and procedures will be written down and personnel will be trained in FY2018.

Sincerely,

Tina Dobson

Tina Dobson
Indiana Controller
Lighthouse Academies, Inc.

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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*Independent Auditors' Report*

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lighthouse Academies of Northwest Indiana, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 Lighthouse Academies of Northwest Indiana, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Likewise, the schedules of financial position by school and schedules of activities and change in net assets by school on pages 14 through 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018 on our consideration of Lighthouse Academies of Northwest Indiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Academies of Northwest Indiana, Inc.'s internal control over financial reporting and compliance.

DONOVAN

Donovan

Indianapolis, Indiana
March 6, 2018

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 1,875,838 | $ 1,287,691 |
| Cash - restricted for bond interest | 118,605 | - |
| Accounts receivable: | | |
| Grants | 600,265 | 408,837 |
| Other | - | 1,847 |
| Prepaid expenses | 88,437 | 127,704 |
| *Total current assets* | 2,683,145 | 1,826,079 |
| **PROPERTY AND EQUIPMENT, NET** | 18,247,289 | 13,839,273 |
| **OTHER ASSETS** | | |
| Cash - restricted for debt service | 1,609,215 | - |
| Cash - restricted for property repairs and replacement | 200,073 | - |
| *Total other assets* | 1,809,288 | - |
| **TOTAL ASSETS** | $ 22,739,722 | $ 15,665,352 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 2,022,673 | $ 1,566,137 |
| Current portion of note payable | 66,667 | 116,667 |
| Current portion of capital lease obligations | - | 55,070 |
| *Total current liabilities* | 2,089,340 | 1,737,874 |
| **LONG-TERM LIABILITIES** | | |
| Capital lease obligations, net of current portion | - | 13,150,530 |
| Bonds payable | 19,950,000 | - |
| Less: unamortized debt issuance costs | (253,438) | - |
| *Total long-term liabilities, net of unamortized debt issuance costs* | 19,696,562 | 13,150,530 |
| *Total liabilities* | 21,785,902 | 14,888,404 |
| **NET ASSETS** | 953,820 | 776,948 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 22,739,722 | $ 15,665,352 |

See independent auditors' report and accompanying notes to the financial statements

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 14,553,941 | $ 13,847,680 |
| Grant revenue | 4,960,406 | 4,721,301 |
| Student fees | 66,105 | 46,765 |
| Contributions | 7,184 | 5,634 |
| Fundraising | 50,747 | 17,419 |
| Other | 80,565 | 62,721 |
| *Total revenue and support* | 19,718,948 | 18,701,520 |
| **EXPENSES** | | |
| Program services | 16,270,249 | 15,776,819 |
| Management and general | 3,245,923 | 3,266,623 |
| Fundraising | 25,904 | 12,333 |
| *Total expenses* | 19,542,076 | 19,055,775 |
| **CHANGE IN NET ASSETS** | 176,872 | (354,255) |
| **NET ASSETS, BEGINNING OF YEAR** | 776,948 | 1,131,203 |
| **NET ASSETS, END OF YEAR** | $ 953,820 | $ 776,948 |

See independent auditors' report and accompanying notes to the financial statements

## LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| **FUNCTIONAL EXPENSES** | | | | | | | | |
| Salaries and wages | $ 7,949,040 | $ 982,679 | $ - | $ 8,931,719 | $ 7,798,114 | $ 1,117,444 | $ - | $ 8,915,558 |
| Employee benefits | 1,774,768 | 314,188 | - | 2,088,956 | 1,600,320 | 236,210 | - | 1,836,530 |
| Staff development and recruitment | 64,004 | - | - | 64,004 | 73,207 | - | - | 73,207 |
| Academic services - Lighthouse Academies | - | 1,419,426 | - | 1,419,426 | - | 1,344,737 | - | 1,344,737 |
| Authorizer oversight fee | - | 297,266 | - | 297,266 | - | 287,723 | - | 287,723 |
| Food service | 1,064,872 | - | - | 1,064,872 | 1,085,293 | - | - | 1,085,293 |
| Transportation service | 1,128,636 | - | - | 1,128,636 | 1,172,436 | - | - | 1,172,436 |
| Other professional services | 603,957 | 143,213 | - | 747,170 | 291,488 | 132,981 | - | 424,469 |
| Equipment rental | 35,386 | - | - | 35,386 | 21,239 | - | - | 21,239 |
| Classroom, kitchen, and office supplies | 350,777 | 47,182 | - | 397,959 | 332,381 | 50,461 | - | 382,842 |
| Occupancy | 1,113,087 | - | - | 1,113,087 | 1,071,194 | - | - | 1,071,194 |
| Depreciation | 705,640 | - | - | 705,640 | 655,359 | - | - | 655,359 |
| Amortization | 4,608 | - | - | 4,608 | - | - | - | - |
| Interest | 1,419,032 | - | - | 1,419,032 | 1,631,169 | - | - | 1,631,169 |
| Other | 56,442 | 41,969 | 25,904 | 124,315 | 44,619 | 97,067 | 12,333 | 154,019 |
| *Total functional expenses* | $ 16,270,249 | $ 3,245,923 | $ 25,904 | $ 19,542,076 | $ 15,776,819 | $ 3,266,623 | $ 12,333 | $ 19,055,775 |

See independent auditors' report and accompanying notes to the financial statements

## LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

### STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 176,872 | $ (354,255) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 705,640 | 655,359 |
| Amortization | 4,608 | - |
| Changes in certain assets and liabilities: | | |
| Grants receivable | (191,428) | (57,316) |
| Other receivable | 1,847 | 21,670 |
| Prepaid expenses | 39,267 | (14,848) |
| Accounts payable and accrued expenses | 415,298 | 325,731 |
| *Net cash provided by operating activities* | 1,152,104 | 576,341 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (132,112) | (401,530) |
| **FINANCING ACTIVITIES** | | |
| Principal repayment of capital lease obligations | (22,946) | (49,147) |
| Principal repayment of note payable | (50,000) | (50,000) |
| Increase in cash - restricted for bond interest | (118,605) | - |
| Increase in cash - restricted for debt service | (96,090) | - |
| Cash paid at bond closing | (144,204) | - |
| *Net cash used in financing activities* | (431,845) | (99,147) |
| **NET CHANGE IN CASH** | 588,147 | 75,664 |
| **CASH, BEGINNING OF YEAR** | 1,287,691 | 1,212,027 |
| **CASH, END OF YEAR** | $ 1,875,838 | $ 1,287,691 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 1,419,032 | $ 1,631,169 |
| Purchases of property and equipment financed through accrued expenses | 41,238 | - |
| Financed through bonds payable: | | |
| Capital lease obligations retirement | 13,182,654 | - |
| Purpose restricted cash acquired | 1,713,198 | - |
| Increase in value of property and equipment | 4,940,306 | - |
| Debt issuance costs | 258,046 | - |

See independent auditors' report and accompanying notes to the financial statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Lighthouse Academies of Northwest Indiana, Inc. ("LANWI"), a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, is the organizer and governing body of two charter schools located in Indiana. Both schools are public charter schools established under Indiana Code 20-24 and sponsored by Ball State University. LANWI has entered into a service agreement with Lighthouse Academies, Inc., a not-for-profit organization incorporated in the State of Delaware, to provide educational, managerial, legal, and financial services to the schools that it operates.

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 primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the schools receive an amount per student in relation to the funding received by other public schools in the same geographic areas. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A portion of LANWI's revenue is the product of cost reimbursement grants. Accordingly, LANWI recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. LANWI believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Debt Issuance Costs – During 2017, LANWI incurred costs associated with securing financing under Indiana Finance Authority Education Facilities Revenue Bonds. Total costs incurred were $258,046. Amortization is provided on a straight-line basis over the term of the bonds (27 years). Accumulated amortization as of June 30, 2017 was $4,608. Amortization expense for the year ended June 30, 2017 was $4,608. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $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:

| | |
|---|---|
| Buildings and improvements | 30 years |
| Furniture and equipment | 3 to 5 years |

Taxes on Income – Lighthouse Academies of Northwest Indiana, 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, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require LANWI 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. LANWI has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2013 are open to audit for both federal and state purposes.

Subsequent Events – LANWI evaluated subsequent events through March 6, 2018, 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.

## NOTE 2 - RESTRICTED CASH

*Cash - restricted for bond interest* is reserved for the payment of interest on the bond semi-annually. Funds are placed in the account monthly to cover one-sixth of the semi-annual interest payment.

*Cash - restricted for debt service* is reserved for the payment of principal and interest on the bond in the event that other funding is unavailable to meet payment requirements. Bond proceeds funded $1,513,125 of the balance in this fund. LANWI is required to deposit $16,015 monthly into this fund beginning January 2017 and ending November 2017.

*Cash - restricted for property repairs and replacement* was established with the bond proceeds and represents resources available for repairing and replacing facilities.

## NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment was comprised of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 1,245,200 | $ 1,245,200 |
| Buildings and improvements | 16,865,731 | 13,381,189 |
| Furniture and equipment | 1,533,479 | 1,441,790 |
| | 19,644,410 | 16,068,179 |
| Less: accumulated depreciation | (1,397,121) | (2,228,906) |
| | $ 18,247,289 | $ 13,839,273 |

## NOTE 4 - BONDS PAYABLE

During 2017, LANWI refinanced its obligations related to its school facilities. Previously, as described in Note 6, LANWI had entered into a lease arrangement with CFM – NW Indiana, LLC. During 2017, LAI purchased its facilities with Indiana Finance Authority Educational Facilities Revenue Bonds, Series 2016 with original amounts totaling $19,950,000. Principal is payable in annual installments that increase from $280,000 to $1,575,000, beginning in December 2018 and maturing in December 2044. Interest payments are made semi-annually at rates ranging from 6.25% to 7.25% in accordance with the bond agreements. The bonds are secured by land, buildings, and improvements.

The Indiana Finance Authority Educational Facilities Revenue Bond agreements contain certain covenants requiring:

- submission of audited financial statements within 150 days after the end of the fiscal year;
- a minimum 35 days cash on hand as of June 30, 2017 and 2018 and 45 days cash on hand thereafter; and
- meeting a minimum debt service coverage ratio of 1.15 to 1.00, measured annually.

LANWI was not in compliance with the covenant of submission of audited financial statements within 150 days after the end of the fiscal year for 2017. Management has discussed this issue with the bondholder and has obtained verbal agreement that the bond will not be called as a result.

Principal maturities of bonds payable are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ - |
| 2019 | 280,000 |
| 2020 | 295,000 |
| 2021 | 315,000 |
| 2022 | 335,000 |
| Thereafter | 18,725,000 |
| | $ 19,950,000 |

## NOTE 5 - NOTE PAYABLE

LANWI has a note payable due to Lighthouse Academies, Inc., which is under contract to manage the LANWI schools. The note provides for monthly interest payments at 4.5% per annum. Principal payments are due and payable at such times as LANWI has unencumbered funds to make a payment when considering other debts then currently owed. The note was to be paid evenly in three payments of $83,333 in 2015, 2016, and 2017, however, only $50,000 was paid on the note in both 2017 and 2016. The note is secured by certain items of personal property.

## NOTE 6 - LEASES

Prior to 2017, LANWI had entered into a 30-year lease agreement with CFM – NW Indiana, LLC for its facilities, which was accounted for as a capital lease. Under the lease agreement, CFM – NW Indiana, LLC agreed to make improvements to the facilities at an approximate cost of $6,300,000. The lease required LANWI to make rental payments equal to CFM – NW Indiana, LLC's debt service obligation on bonds that it issued to purchase the facilities. In addition, LANWI was responsible for utilities, maintenance, and insurance. The facilities were purchased by LANWI from CFM – NW Indiana, LLC in December 2016 using proceeds from the bonds, as described in Note 4.

LANWI also leases certain items of equipment under operating leases. Total lease expense under operating leases for the years ended June 30, 2017 and 2016 was $110,148 and $59,637, respectively. Future minimum lease payments are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 57,132 |
| 2019 | 57,132 |
| 2020 | 57,132 |
| 2021 | 24,916 |

## NOTE 7 - RETIREMENT PLAN

All LANWI personnel are employees of Lighthouse Academies, Inc., which provides management services to LANWI. LANWI personnel are eligible to participate in the Lighthouse Academies, Inc. Section 401(k) retirement plan. Under the plan, LANWI matches 100% of employee contributions up to 4% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the LANWI Board of Directors. No discretionary contributions were made in 2017 or 2016. Retirement plan expense for the years ended June 30, 2017 and 2016 was $127,098 and $81,596, respectively.

## NOTE 8 - COMMITMENTS

LANWI's two schools operate under charters granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charters, LANWI has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received associated with its two schools. Expense under the charter agreements was $297,266 and $287,723 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 8 - COMMITMENTS, Continued**

LANWI has contracted with Lighthouse Academies, Inc. to provide management, administrative, and educational programming services for each of its schools. Under the terms of the agreements, LANWI has agreed to pay an amount equal to 7.5% of revenue, as defined, for such services. Expense under the agreements was $1,419,426 and $1,344,737 for the years ended June 30, 2017 and 2016, respectively. These agreements remain in effect so long as the school charters remain in effect.

**NOTE 9 - RISKS AND UNCERTAINTIES**

LANWI provides education services to families residing in Lake and surrounding counties of 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 LANWI. Additionally, LANWI is subject to monitoring and audit by state and federal agencies. These examinations may result in additional liability to be imposed.

Financial instruments that potentially subject LANWI to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2017 and 2016, substantially all receivable balances were due from the State of Indiana. Cash deposits are maintained at J.P. Morgan Chase Bank and BMO Harris Bank and are insured up to the FDIC insurance limit. As of June 30, 2017 and 2016, LANWI carried balances in its bank accounts in excess of FDIC insurance limits.

**NOTE 10 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program services, management and general, and fundraising.

SUPPLEMENTARY INFORMATION

**LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.**

**SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2017**

| Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Total Federal Awards Expended |
|---|---|---|---|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Pass-through Indiana Department of Education | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | | $ 344,982 |
| National School Lunch Program | 10.555 | | 927,266 |
| *Total for cluster* | | | 1,272,248 |
| Fresh Fruit and Vegetable Program | 10.582 | | 16,412 |
| *Total for federal grantor agency* | | | 1,288,660 |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Pass-through Indiana Department of Education | | | |
| Title I, Part A Cluster | | | |
| Grants to Local Educational Agencies | 84.010 | 16-9535/17-9535<br>16-9595/17-9595 | 2,301,780 |
| Special Education Cluster | | | |
| Special Education - Grants to States | 84.027 | 14216-561-PN01<br>14216-501-PN01<br>14216-561-PN01 | 147,578 |
| English Language Acquisition State Grants | 84.365 | | 19,163 |
| Improving Teacher Quality State Grants | 84.367 | | 162,570 |
| *Total for federal grantor agency* | | | 2,631,091 |
| Total federal awards expended | | | $ 3,919,751 |

See independent auditors' report and accompanying notes to this schedule

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
**For the Year Ended June 30, 2017**

### NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Lighthouse Academies of Northwest Indiana, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lighthouse Academies of Northwest Indiana, Inc., it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of Lighthouse Academies of Northwest Indiana, Inc.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

## SCHEDULE OF FINANCIAL POSITION BY SCHOOL

### June 30, 2017

| | Gary | East Chicago | Eliminations | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | $ 1,502,626 | $ 373,212 | $ - | $ 1,875,838 |
| Cash - restricted for bond interest | 94,884 | 23,721 | - | 118,605 |
| Accounts receivable: | | | | |
| Grants | 423,379 | 176,886 | - | 600,265 |
| Other | 96,715 | 7,722 | (104,437) | - |
| Prepaid expenses | 56,435 | 32,002 | - | 88,437 |
| *Total current assets* | 2,174,039 | 613,543 | (104,437) | 2,683,145 |
| **PROPERTY AND EQUIPMENT, NET** | 14,646,605 | 3,600,684 | - | 18,247,289 |
| **OTHER ASSETS** | | | | |
| Cash - restricted for debt service | 1,294,198 | 315,017 | - | 1,609,215 |
| Cash - restricted for property repairs and replacement | 160,961 | 39,112 | - | 200,073 |
| *Total other assets* | 1,455,159 | 354,129 | - | 1,809,288 |
| **TOTAL ASSETS** | $ 18,275,803 | $ 4,568,356 | $ (104,437) | $ 22,739,722 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued expenses | $ 1,489,678 | $ 637,432 | $ (104,437) | $ 2,022,673 |
| Current portion of note payable | - | 66,667 | - | 66,667 |
| *Total current liabilities* | 1,489,678 | 704,099 | (104,437) | 2,089,340 |
| **LONG-TERM LIABILITIES** | | | | |
| Bonds payable | 16,050,000 | 3,900,000 | | 19,950,000 |
| Less: unamortized debt issuance costs | (203,894) | (49,544) | - | (253,438) |
| *Total long-term liabilities, net of unamortized debt issuance costs* | 15,846,106 | 3,850,456 | - | 19,696,562 |
| *Total liabilities* | 17,335,784 | 4,554,555 | (104,437) | 21,785,902 |
| **NET ASSETS** | 940,019 | 13,801 | - | 953,820 |
| **TOTAL LIABILTIES AND NET ASSETS** | $ 18,275,803 | $ 4,568,356 | $ (104,437) | $ 22,739,722 |

See independent auditors' report

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

## SCHEDULE OF FINANCIAL POSITION BY SCHOOL

### June 30, 2016

| | Gary | East Chicago | Eliminations | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | $ 1,055,555 | $ 232,136 | $ - | $ 1,287,691 |
| Accounts receivable: | | | | |
| Grants | 302,536 | 106,301 | - | 408,837 |
| Other | 123,805 | 1,847 | (123,805) | 1,847 |
| Prepaid expenses | 81,161 | 46,543 | - | 127,704 |
| *Total current assets* | 1,563,057 | 386,827 | (123,805) | 1,826,079 |
| **PROPERTY AND EQUIPMENT, NET** | 11,120,293 | 2,718,980 | - | 13,839,273 |
| **TOTAL ASSETS** | $ 12,683,350 | $ 3,105,807 | $ (123,805) | $ 15,665,352 |
| **LIABILITIES AND NET ASSETS (DEFICIENCY)** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued expenses | $ 1,202,885 | $ 487,057 | $ (123,805) | $ 1,566,137 |
| Current portion of note payable | - | 116,667 | - | 116,667 |
| Current portion of capital lease obligations | 45,002 | 10,068 | - | 55,070 |
| *Total current liabilities* | 1,247,887 | 613,792 | (123,805) | 1,737,874 |
| **LONG-TERM LIABILITIES** | | | | |
| Capital lease obligations, net of current portion | 10,577,822 | 2,572,708 | - | 13,150,530 |
| *Total liabilities* | 11,825,709 | 3,186,500 | (123,805) | 14,888,404 |
| **NET ASSETS (DEFICIENCY)** | 857,641 | (80,693) | - | 776,948 |
| **TOTAL LIABILTIES AND NET ASSETS (DEFICIENCY)** | $ 12,683,350 | $ 3,105,807 | $ (123,805) | $ 15,665,352 |

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

## SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

### For the Year Ended June 30, 2017

| | Gary | East Chicago | Total |
|---|---|---|---|
| **REVENUE AND SUPPORT** | | | |
| State education support | $ 11,261,426 | $ 3,292,515 | $ 14,553,941 |
| Grant revenue | 3,917,334 | 1,043,072 | 4,960,406 |
| Student fees | 53,926 | 12,179 | 66,105 |
| Contributions | - | 7,184 | 7,184 |
| Fundraising | 11,534 | 39,213 | 50,747 |
| Other | 71,374 | 9,191 | 80,565 |
| *Total revenue and support* | 15,315,594 | 4,403,354 | 19,718,948 |
| **EXPENSES** | | | |
| Program services | 12,748,469 | 3,521,780 | 16,270,249 |
| Management and general | 2,484,747 | 761,176 | 3,245,923 |
| Fundraising | - | 25,904 | 25,904 |
| *Total expenses* | 15,233,216 | 4,308,860 | 19,542,076 |
| **CHANGE IN NET ASSETS** | 82,378 | 94,494 | 176,872 |
| **NET ASSETS (DEFICIENCY), BEGINNING OF YEAR** | 857,641 | (80,693) | 776,948 |
| **NET ASSETS, END OF YEAR** | $ 940,019 | $ 13,801 | $ 953,820 |

See independent auditors' report

# LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

## SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

### For the Year Ended June 30, 2016

| | Gary | East Chicago | Total |
|---|---|---|---|
| **REVENUE AND SUPPORT** | | | |
| State education support | $ 10,742,801 | $ 3,104,879 | $ 13,847,680 |
| Grant revenue | 3,764,297 | 957,004 | 4,721,301 |
| Student fees | 38,687 | 8,078 | 46,765 |
| Contributions | - | 5,634 | 5,634 |
| Fundraising | 400 | 17,019 | 17,419 |
| Other | 59,618 | 3,103 | 62,721 |
| *Total revenue and support* | 14,605,803 | 4,095,717 | 18,701,520 |
| **EXPENSES** | | | |
| Program services | 12,227,510 | 3,549,309 | 15,776,819 |
| Management and general | 2,610,462 | 656,161 | 3,266,623 |
| Fundraising | - | 12,333 | 12,333 |
| *Total expenses* | 14,837,972 | 4,217,803 | 19,055,775 |
| **CHANGE IN NET ASSETS** | (232,169) | (122,086) | (354,255) |
| **NET ASSETS, BEGINNING OF YEAR** | 1,089,810 | 41,393 | 1,131,203 |
| **NET ASSETS (DEFICIENCY), END OF YEAR** | $ 857,641 | $ (80,693) | $ 776,948 |

Donovan CPAs

# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lighthouse Academies of Northwest Indiana, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2018.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lighthouse Academies of Northwest Indiana, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lighthouse Academies of Northwest Indiana, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Academies of Northwest Indiana, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

DONOVAN

Indianapolis, Indiana
March 6, 2018

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *UNIFORM GUIDANCE***

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Lighthouse Academies of Northwest Indiana, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Lighthouse Academies of Northwest Indiana, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lighthouse Academies of Northwest Indiana, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lighthouse Academies of Northwest Indiana, Inc.'s compliance.

**Opinion on Each Major Federal Program**

In our opinion, Lighthouse Academies of Northwest Indiana, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control over Compliance**

Management of Lighthouse Academies of Northwest Indiana, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lighthouse Academies of Northwest Indiana, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN

Indianapolis, Indiana
March 6, 2018

## LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
### SCHEDULE OF FINDINGS AND QUESTIONED COSTS
### For the Year Ended June 30, 2017

### I. Summary of Auditors' Results

***Financial Statements***

| | |
|---|---|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness identified? | No |
| • Significant deficiency identified? | None reported |
| Noncompliance material to financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| • Material weakness identified? | No |
| • Significant deficiency identified? | None Reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 84.010 | Title I, Part A Cluster<br>Grants to Local Educational Agencies |

| | |
|---|---|
| Dollar threshold use to distinguish between Type A and Type B programs: | $750,000 |
| Auditee qualified as low-risk auditee? | No |

### II. Financial Statement Findings

No matters are reportable.

### III. Federal Award Findings and Questioned Costs

No matters are reportable.

## LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
### OTHER REPORT
### For the Year Ended June 30, 2017

The reports presented herein were prepared in addition to another official report prepared for Lighthouse Academies of Northwest Indiana, Inc. as listed below:

Supplemental Audit Report of Lighthouse Academies of Northwest Indiana, 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*.

Mays Community Academy

# NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
# d/b/a MAYS COMMUNITY ACADEMY

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

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***Independent Auditors' Report***

The Board of Directors
Northern Rush County Schools, Incorporated

We have audited the accompanying financial statements of Northern Rush County Schools, Incorporated d/b/a Mays Community Academy, which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities and change in net assets (deficiency), functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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.

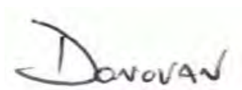
**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Rush County Schools, Incorporated d/b/a Mays Community Academy as of June 30, 2017 and 2016, and the changes in its net assets (deficiency), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Going Concern**

As described in Note 2 to the financial statements, the School has experienced financial difficulties during the fiscal years ended June 30, 2017 and 2016. These factors include recurring losses net of an in-kind property donation, negative cash flows from operations, maximum borrowings on two lines of credit, significant decreases in cash and increases in current liabilities, and necessary short-term borrowings and repayments of notes payable from members of the community to meet cash flow needs. These factors combined raise substantial doubt about the School's ability to continue as a going concern. Further details pertaining to these financial difficulties as well as management's intentions with respect to this matter are also described in Note 2. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN



Indianapolis, Indiana
February 1, 2018

# NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
## d/b/a MAYS COMMUNITY ACADEMY
### STATEMENTS OF FINANCIAL POSITION
**June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 9,925 | $ 124,516 |
| Grants receivable | 14,614 | 16,216 |
| *Total current assets* | 24,539 | 140,732 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 88,400 | 88,400 |
| Building and improvements | 512,642 | 509,075 |
| Furniture and equipment | 204,198 | 153,344 |
| Software and textbooks | 79,684 | 65,018 |
| Vehicles | 5,000 | 5,000 |
| Less: accumulated depreciation | (102,005) | (69,534) |
| *Property and equipment, net* | 787,919 | 751,303 |
| **Other Assets** | | |
| Security Deposit | 3,900 | 3,900 |
| **TOTAL ASSETS** | $ 816,358 | $ 895,935 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Lines of credit | $ 150,000 | $ - |
| Current portion of long-term notes payable | 42,500 | 132,157 |
| Accounts payable and accrued expenses | 155,322 | 65,615 |
| Refundable advance | 29,475 | - |
| *Total current liabilities* | 377,297 | 197,772 |
| **LONG-TERM NOTES PAYABLE, NET OF CURRENT PORTION** | 361,250 | 403,750 |
| *Total liabilities* | 738,547 | 601,522 |
| **UNRESTRICTED NET ASSETS** | 77,811 | 294,413 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 816,358 | $ 895,935 |

See independent auditors' report and accompanying notes to the financial statements

## NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
## d/b/a MAYS COMMUNITY ACADEMY
### STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
**For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 1,206,207 | $ 697,545 |
| Grant revenue | 283,373 | 383,547 |
| Student fees | 42,498 | 41,398 |
| Contributions: | | |
| Property donation | - | 595,500 |
| Other contributions | 14,640 | 1,874 |
| Other income | 39,638 | 1,137 |
| *Total revenue and support* | 1,586,356 | 1,721,001 |
| **EXPENSES** | | |
| Program services | 1,301,574 | 972,493 |
| Management and general | 501,384 | 451,341 |
| *Total expenses* | 1,802,958 | 1,423,834 |
| **CHANGE IN NET ASSETS** | (216,602) | 297,167 |
| **NET ASSETS (DEFICIENCY), BEGINNING OF YEAR** | 294,413 | (2,754) |
| **NET ASSETS, END OF YEAR** | $ 77,811 | $ 294,413 |

See independent auditors' report and accompanying notes to the financial statements

# NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
## d/b/a MAYS COMMUNITY ACADEMY
### STATEMENTS OF FUNCTIONAL EXPENSES
### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 642,134 | $ 239,199 | $ 881,333 | $ 428,471 | $ 217,634 | $ 646,105 |
| Employee benefits | 187,124 | 57,083 | 244,207 | 126,380 | 34,840 | 161,220 |
| Staff development | 14,905 | - | 14,905 | 12,983 | - | 12,983 |
| Professional services | 53,748 | 92,827 | 146,575 | 27,768 | 108,320 | 136,088 |
| Repairs and maintenance | - | 31,209 | 31,209 | - | 32,916 | 32,916 |
| Authorizer oversight fees | - | 28,383 | 28,383 | - | 15,696 | 15,696 |
| Food costs | 44,563 | - | 44,563 | 48,977 | - | 48,977 |
| Transportation | 215,957 | 2,501 | 218,458 | 127,954 | 1,173 | 129,127 |
| Information technology | 12,664 | - | 12,664 | 26,552 | - | 26,552 |
| Advertising | - | 13,043 | 13,043 | - | 6,339 | 6,339 |
| Classroom, kitchen, and office supplies | 29,062 | 20,389 | 49,451 | 55,749 | 22,215 | 77,964 |
| Occupancy | 58,868 | - | 58,868 | 36,242 | - | 36,242 |
| Depreciation | 32,471 | - | 32,471 | 69,534 | - | 69,534 |
| Interest | - | 13,245 | 13,245 | - | 8,068 | 8,068 |
| Insurance | 2,500 | - | 2,500 | 5,776 | - | 5,776 |
| Other | 7,578 | 3,505 | 11,083 | 6,107 | 4,140 | 10,247 |
| *Total functional expenses* | $ 1,301,574 | $ 501,384 | $ 1,802,958 | $ 972,493 | $ 451,341 | $ 1,423,834 |

See independent auditors' report and accompanying notes to the financial statements

## NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
## d/b/a MAYS COMMUNITY ACADEMY
### STATEMENTS OF CASH FLOWS
### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (216,602) | $ 297,167 |
| Adjustments to reconcile change in net assets | | |
| to net cash used in operating activities: | | |
| Contributed property and equipment | - | (595,500) |
| Depreciation | 32,471 | 69,534 |
| Change in certain assets and liabilities: | | |
| Grants receivable | 1,602 | (16,216) |
| Security Deposit | - | (3,900) |
| Accounts payable and accrued expenses | 89,707 | 65,615 |
| Refundable advance | 29,475 | - |
| *Net cash used in operating activities* | (63,347) | (183,300) |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (69,087) | (220,651) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from short-term notes payable | 219,000 | - |
| Principal payments on short-term notes payable | (219,000) | - |
| Proceeds from lines of credit | 150,000 | - |
| Proceeds from long-term notes payable | - | 675,000 |
| Principal payments on notes payable | (132,157) | (189,093) |
| *Net cash provided by financing activities* | 17,843 | 485,907 |
| **NET CHANGE IN CASH** | (114,591) | 81,956 |
| **CASH, BEGINNING OF YEAR** | 124,516 | 42,560 |
| **CASH, END OF YEAR** | $ 9,925 | $ 124,516 |

| | | |
|---|---|---|
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 13,245 | $ 8,068 |

# NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
# d/b/a MAYS COMMUNITY ACADEMY
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – Northern Rush County Schools, Incorporated d/b/a Mays Community Academy (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School commenced operations as a public charter school on July 1, 2015 under Indiana Code 20-24. The School serves grades kindergarten through six and is sponsored by Ball State University. The School also operates a preschool on site.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Revenue Recognition – Revenues primarily 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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

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 small equipment purchases 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:

| | |
|---|---|
| Building and improvements | 7 to 20 years |
| Furniture and equipment | 5 to 7 years |
| Software and textbooks | 3 to 5 years |
| Vehicles | 5 years |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Northern Rush County Schools, Incorporated 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 years ended June 30, 2017 and 2016, 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.

Subsequent Events – The School evaluated subsequent events through February 1, 2018, 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 require.

## NOTE 2 - GOING CONCERN CONSIDERATIONS

As reflected in the accompanying financial statements, the School has been experiencing financial difficulties during the fiscal years ended June 30, 2017 and 2016. The following factors raise substantial doubt about the School's ability to continue as a going concern:

- Excluding in-kind property donations, expenses exceeded revenues by $216,602 and $298,333 for fiscal years 2017 and 2016, respectively;
- Negative cash flow from operations totaled $63,347 and $183,300 for the fiscal years 2017 and 2016, respectively;
- During fiscal year 2017, the School borrowed the maximum of $75,000 on each of its two lines of credit;
- As of June 30, 2017, current liabilities exceeded current assets by $352,758, requiring funding from the 2017-2018 school year to be used to pay past expenses; and
- Funds totaling $219,000 were borrowed from and repaid to members of the community during fiscal year 2017 to meet cash flow requirements.

The ability of the School to continue as a going concern is dependent upon the School increasing state education support revenue through increased enrollment, controlling its operating expenses, and improving its cash management processes. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

## NOTE 2 - GOING CONCERN CONSIDERATIONS, Continued

Management is aware of the financial difficulties experienced in fiscal years 2017 and 2016, and has taken measures to alleviate the causes. Such measures include increasing the student population approximately 150% since the School's inception, increasing funding for special education through more accurate and timely student counts, and cost reductions in its food program due to federal reimbursement for free and reduced lunches served. Management believes the steps it has taken to improve the School's financial position will allow it to continue as a going concern into the foreseeable future.

## NOTE 3 - REFUNDABLE ADVANCE

The School has been awarded grants to provide educational instruction that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017, the School had refundable grant advances in excess of expenditures of $29,475.

## NOTE 4 - LINES OF CREDIT

The School has two lines of credit with CentreBank. The first line of credit has a $75,000 borrowing capacity, incurs interest at 4.0% per annum. The second line of credit has a $75,000 borrowing capacity and incurs interest at 4.5% per annum. The balance on both lines of credit as of June 30, 2017 was $150,000.

## NOTE 5 – LONG-TERM NOTES PAYABLE

Long-term notes payable consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to CentreBank, payable in monthly installments of $17,168 including interest at 3.75% per annum, through January 2017. | $ - | $ 110,907 |
| Note payable to Indiana State Board of Education, payable $21,250 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, maturing in July 2026. | 403,750 | 425,000 |
| | 403,750 | 535,907 |
| Less: current portion | (42,500) | (132,157) |
| Long-term portion | $ 361,250 | $ 403,750 |

**NOTE 5 - NOTES PAYABLE, Continued**

Principal maturities of long-term notes payable are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 42,500 |
| 2019 | | 42,500 |
| 2020 | | 42,500 |
| 2021 | | 42,500 |
| 2022 | | 42,500 |
| Thereafter | | 191,250 |
| | $ | 403,750 |

**NOTE 6 - SHORT TERM FINANCING**

From time to time throughout the year ended June 30, 2017, the School utilized short-term note payable financing from members of the community to meet cash flow needs. The School borrowed money at an average rate of 8%. The School borrowed and repaid $219,000 in short-term financing, and paid $935 in interest on these borrowings during the year.

**NOTE 7 - RETIREMENT PLANS**

During the fiscal year 2017, the School began to participate in the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. The School's total retirement expense was $71,166 in 2017.

**NOTE 8 - 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. Payments under this charter agreement were $28,383 and $15,696 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

The School contracted with Indiana Charters LLC, a for-profit organization incorporated in the State of Indiana, to perform data management, financial, administrative, and general operational support services. Under the terms of the agreement, the School agreed to pay a total of $131,500 through June 2017 for such services. The contract commenced in July 2015. Expenses under this contract were $45,826 and $81,498 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 9 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Rush 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 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, 2017, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at CentreBank and MainSource Bank, and are insured up to the FDIC insurance limit.

## NOTE 10 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program services and management and general.

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**
**d/b/a MAYS COMMUNITY ACADEMY**
**OTHER REPORT**
**For the Year Ended June 30, 2017**

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

Supplemental Audit Report of Northern Rush County Schools, Incorporated
d/b/a Mays Community Academy.

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.*

SUPPLEMENTAL AUDIT REPORT

OF

# NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
# d/b/a MAYS COMMUNITY ACADEMY

RUSH COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**
**d/b/a MAYS COMMUNITY ACADEMY**
**RUSH COUNTY, INDIANA**
**School Officials**
**July 1, 2016 to June 30, 2017**

| Office | Official | Term |
| --- | --- | --- |
| President of Board of Directors | Nansi Custer | 07/01/16 – 06/30/17 |
| CEO | Carissa Williams | 07/01/16 – 06/30/17 |
| Principal | Shannon New | 07/01/16 – 06/30/17 |

Donovan CPAs

The Board of Directors
Northern Rush County Schools Incorporated

We have audited the financial statements of Northern Rush County Schools Incorporated d/b/a Mays Community Academy, (the "School") as of and for the year ended June 30, 2017, and have issued our report thereon dated February 1, 2018. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
February 1, 2018

### MINIMUM INTERNAL CONTROL STANDARDS

Per review and discussion with Mays Community Academy's personnel, we determined that the school was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

# NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
# d/b/a MAYS COMMUNITY ACADEMY
## RUSH COUNTY, INDIANA
## Exit Conference
## July 1, 2016 to June 30, 2017

The contents of this report were discussed on February 1, 2018 with Carissa Williams (CEO) and Nansi Custer (President of the Board of Directors). The Official Response has been made a part of this report and may be found on page 5.

**MAYS**
Community Academy

February 1, 2018

RESPONSE TO SBOA REPORT

Management is aware of the new standard and we will comply for the 2018 fiscal year and future years.

Carissa Williams, CEO

P.O. Box 188 • Lewisville, IN 47352 929 E. South St. • Mays, IN 46155
(P) 765-645-5577 • (F) 765-645-5230

Neighbors' New Vistas High School

# NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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*Independent Auditors' Report*

The Board of Directors
Neighbors' Educational Opportunities, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Neighbors' Educational Opportunities, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Neighbors' Educational Opportunities, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
December 22, 2017

## NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

### STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 38,975 | $ 74,655 |
| Grants receivable | 159,058 | 88,799 |
| Other receivables | 13,324 | 4,007 |
| Prepaid expenses | 12,474 | 8,319 |
| *Total current assets* | 223,831 | 175,780 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 835,000 | 835,000 |
| Building and improvements | 3,957,399 | 900,683 |
| Furniture and equipment | 442,499 | 218,383 |
| Construction in progress | - | 1,117,323 |
| Less: accumulated depreciation | (247,226) | (68,692) |
| *Property and equipment, net* | 4,987,672 | 3,002,697 |
| **OTHER ASSETS** | | |
| Security deposit | 11,910 | 11,910 |
| Cash restricted for construction | - | 2,312,735 |
| *Total other assets* | 11,910 | 2,324,645 |
| **TOTAL ASSETS** | $ 5,223,413 | $ 5,503,122 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 305,491 | $ 73,026 |
| Accounts payable and accrued expenses | 173,613 | 167,667 |
| *Total current liabilities* | 479,104 | 240,693 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | 4,246,451 | 4,579,629 |
| *Total liabilities* | 4,725,555 | 4,820,322 |
| **NET ASSETS, UNRESTRICTED** | 497,858 | 682,800 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 5,223,413 | $ 5,503,122 |

See independent auditors' report and accompanying notes to the financial statements

**NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 1,621,778 | $ 1,306,464 |
| Grant revenue | 734,643 | 570,036 |
| Student fees | 35,157 | 36,138 |
| Contributions: | | |
| Land donation | - | 435,000 |
| Other contributions | 57,754 | 15,431 |
| Other income | 50,547 | 4,112 |
| *Total revenue and support* | 2,499,879 | 2,367,181 |
| **EXPENSES** | | |
| Program services | 1,822,607 | 1,280,341 |
| Management and general | 862,214 | 681,162 |
| *Total expenses* | 2,684,821 | 1,961,503 |
| **CHANGE IN NET ASSETS** | (184,942) | 405,678 |
| **NET ASSETS, BEGINNING OF YEAR** | 682,800 | 277,122 |
| **NET ASSETS, END OF YEAR** | $ 497,858 | $ 682,800 |

## NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 980,933 | $ 489,557 | $ 1,470,490 | $ 759,463 | $ 485,079 | $ 1,244,542 |
| Employee benefits | 180,884 | 90,275 | 271,159 | 135,243 | 86,381 | 221,624 |
| Staff development | 5,559 | 2,213 | 7,772 | 3,329 | 2,100 | 5,429 |
| Authorizer oversight fees | - | 37,397 | 37,397 | - | 28,813 | 28,813 |
| Content | 33,850 | - | 33,850 | 18,952 | - | 18,952 |
| Food costs | 49,394 | - | 49,394 | 49,002 | - | 49,002 |
| Equipment | 28,938 | - | 28,938 | 21,346 | - | 21,346 |
| Classroom and office supplies | 52,862 | 21,764 | 74,626 | 21,685 | 20,239 | 41,924 |
| Professional services | 34,609 | 32,799 | 67,408 | 49,735 | 29,044 | 78,779 |
| Occupancy | 180,372 | - | 180,372 | 138,528 | - | 138,528 |
| Contracted IT services | 86,087 | - | 86,087 | 39,507 | - | 39,507 |
| Travel | 8,191 | 8,441 | 16,632 | 9,959 | 6,936 | 16,895 |
| Insurance | - | 18,817 | 18,817 | - | 9,449 | 9,449 |
| Advertising | - | 15,755 | 15,755 | - | 6,735 | 6,735 |
| Depreciation | 178,534 | - | 178,534 | 31,151 | - | 31,151 |
| Interest | - | 141,537 | 141,537 | - | 3,161 | 3,161 |
| Other | 2,394 | 3,659 | 6,053 | 2,441 | 3,225 | 5,666 |
| *Total functional expenses* | $ 1,822,607 | $ 862,214 | $ 2,684,821 | $ 1,280,341 | $ 681,162 | $ 1,961,503 |

See independent auditors' report and accompanying notes to the financial statements

**NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (184,942) | $ 405,678 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation | 178,534 | 31,151 |
| Land donation | - | (435,000) |
| Change in certain assets and liabilities: | | |
| Grants receivable | (70,259) | 46,172 |
| Other receivables | (9,317) | 6,405 |
| Prepaid expenses | (4,155) | (6,492) |
| Security deposit | - | (11,910) |
| Accounts payable and accrued expenses | 5,946 | 68,020 |
| *Net cash provided by (used in) operating activities* | (84,193) | 104,024 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (2,163,509) | (2,520,824) |
| Change in cash restricted for construction | 2,312,735 | (2,312,735) |
| *Net cash provided by (used in) investing activities* | 149,226 | (4,833,559) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from notes payable | - | 4,652,655 |
| Principal payments of notes payable | (100,713) | - |
| *Net cash provided by (used in) financing activities* | (100,713) | 4,652,655 |
| **NET CHANGE IN CASH** | (35,680) | (76,880) |
| **CASH, BEGINNING OF YEAR** | 74,655 | 151,535 |
| **CASH, END OF YEAR** | $ 38,975 | $ 74,655 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 141,537 | $ - |

# NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
## NOTES TO THE FINANCIAL STATEMENTS
### For the Years Ended June 30, 2017 and 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – Neighbors' Educational Opportunities, Inc. (the "Corporation") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The Corporation operates a public alternative charter high school established under Indiana Code 20-24 and is sponsored by Ball State University. Operations commenced with the 2012-2013 academic year. The Corporation also operates a comprehensive adult education program and an official testing site for the State of Indiana's High School Equivalency diploma (formerly referred to as GED).

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 primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the Corporation 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 is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A significant portion of the Corporation's revenue is the product of cost reimbursement grants. Accordingly, the Corporation recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The Corporation believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases 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:

| | |
|---|---|
| Building | 37.5 years |
| Furniture and equipment | 3 to 7 years |

Taxes on Income – Neighbors' Educational Opportunities, 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 Corporation would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued – Professional accounting standards require the Corporation 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 Corporation has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2013 are open to audit for both federal and state purposes.

Subsequent Events – The Corporation evaluated subsequent events through December 22, 2017, 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.

## NOTE 2 - GOING CONCERN CONSIDERATION

Enrollment for the 2017-2018 school year declined significantly. In the fall of 2017, enrollment was 195 students compared to an average enrollment of 245 for the 2016-2017 school year. The School will see a sizable drop in state education support and other grant revenue (in excess of $300,000), while experiencing a large increase in debt service obligations (an additional approximate $200,000).

Management has examined its expense structure and made adjustments as necessary to reduce and contain expenses. The Indiana State Board of Education has agreed to defer the January 1, 2018 loan payment and the School is working with 1st Source Bank for concessions on its note payable. Management has been in communication with the Office of Charter Schools at Ball State University for their assistance during this time. The School is also actively marketing 2.6 acres of unused land to sell and seeking other sources of funding. Finally, management has established a dedicated recruitment plan to increase enrollment for the 2018-2019 school year.

We believe that management's intentional and urgent actions and success in debt restructuring will allow the School to continue to operate at least twelve months beyond the date of this report.

## NOTE 3 - LEASES

The Corporation leased its educational facility from Portage Township Schools on an annual basis for $1 per year plus monthly payments of $8,888 to cover utilities, maintenance, and insurance. The Corporation does not report a like kind contribution for donated facilities as the lease fair value is unknown. The lease was terminated at the end of the 2015-2016 school year. The Corporation moved to its new facilities during July 2016.

The Corporation also leases equipment under an operating lease agreement. The equipment lease matures in December 2018 and provides for monthly payments of $835.

**NOTE 3 - LEASES, Continued**

Expense under these operating leases for the years ended June 30, 2017 and 2016 was $37,059 and $117,508, respectively.

Minimum future rental payments under non-cancelable operating leases with a remaining term in excess of one year as of June 30, 2017 are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 10,020 |
| 2019 | | 5,010 |

**NOTE 4 - NOTES PAYABLE**

Notes payable consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to Indiana State Board of Education, payable $57,633 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, through July 2026. | $ 1,095,022 | $ 1,152,655 |
| Note payable to 1st Source Bank, payable in monthly installments of interest only at 4.25% per annum until May 2017, beginning June 2017 monthly installments of $27,789 including interest at 4.25% per annum, with a balloon payment due May 2022. | 3,456,920 | 3,500,000 |
| | 4,551,942 | 4,652,655 |
| Less: current portion | (305,491) | (73,026) |
| Long-term portion | $ 4,246,451 | $ 4,579,629 |

The note payable to the Indiana State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the Corporation's future tuition support payments on the Corporation's basic grant.

Principal maturities of notes payable are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 305,492 |
| 2019 | | 313,736 |
| 2020 | | 322,337 |
| 2021 | | 331,311 |
| 2022 | | 2,760,374 |
| Thereafter | | 518,692 |
| | $ | 4,551,942 |

## NOTE 5 - RETIREMENT PLAN

The Corporation maintains a SIMPLE IRA retirement plan with Oppenheimer Funds for the benefit of its employees. Substantially all full-time employees are eligible to participate. Under the plan, the Corporation matches up to 3% of each participant's compensation for the plan year. Retirement plan expense for the years ended June 30, 2017 and 2016 was $17,302 and $18,161, respectively.

## NOTE 6 - COMMITMENTS

The charter high 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 Corporation has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $37,397 and $28,813 for the years ended June 30, 2017 and 2016, respectively. The charter will remain in effect until June 30, 2022 and is renewable thereafter by mutual consent.

## NOTE 7 - RISKS AND UNCERTAINTIES

The Corporation provides educational instruction services to persons residing in Porter 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 Corporation. Additionally, the Corporation is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Corporation.

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of receivables from Center of Workforce Innovations, Inc. and the State of Indiana.

## NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net assets. Accordingly, certain expenses have been allocated between program services and management and general.

## NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
### OTHER REPORT
### For the Year Ended June 30, 2017

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

Supplemental Audit Report of Neighbors' Educational Opportunities, 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.

SUPPLEMENTAL AUDIT REPORT

OF

**NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.**

PORTER COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
## PORTER COUNTY, INDIANA
### School Officials
### July 1, 2016 to June 30, 2017

| Office | Official | Term |
| --- | --- | --- |
| President of Board of Directors | Deborah Birch | 07/01/16 – 06/30/17 |
| Executive Director | Rebecca Reiner | 07/01/16 – 06/30/17 |
| Director of Operations | Shanta Belyeu | 07/01/16 – 06/30/17 |

Donovan CPAs

The Board of Directors
Neighbors' Educational Opportunities, Inc.

We have audited the financial statements of Neighbors' Educational Opportunities, Inc. (the "School") as of and for the year ended June 30, 2017, and have issued our report thereon dated December 22, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 22, 2017

### MINIMUM INTERNAL CONTROL STANDARDS

Per review and discussion with school personnel, it was determined that the school was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

The School's certification on the Gateway platform on the adoption of and training on internal control standards was made incorrectly. The school personnel did not understand the requirements set forth by IC 5-11-1-27(g) prior to the certification and have since realized that they should have answered that the School was not in compliance.

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

# NEIGHBORS' EDUCATION OPPORTUNITIES, INC.
## PORTER COUNTY, INDIANA
## Exit Conference
## July 1, 2016 to June 30, 2017

The contents of this report were discussed on December 21, 2017 with Marie Robinson (Board Treasurer), Rebecca Reiner (Executive Director), and Shanta Belyeu (Director of Operations). The Official Response has been made a part of this report and may be found on page 5.

**Neighbors' Educational Opportunities**
Neighbors' New Vistas High School and Adult Education
*Rebecca Reiner, Executive Director*
*Shanta Belyeu, Director of Operations*

NEO NEIGHBORS' EDUCATIONAL OPPORTUNITIES

*Forging Promising Futures*

December 22, 2017

Neighbors' Educational Opportunities, Inc. adopted as part of the board policies internal controls and has continued to adhere to those policies. The original adoption was in 2014 under the direction of Ball State University. In relation to IC 5-11-1-27 (g), we were not aware of the inception date and therefore did not meet the requirements of the Indiana Code. We have since then reviewed the current internal control policies and have begun revision to make sure they align with Indiana Code. In addition, all appropriate personnel will receive training on these internal control procedures. This process will be completed by the end of June 2018 at the close of the fiscal year.

Shanta M. Belyeu
Director of Operations

Rebecca A. Reiner,
Executive Director

Neighbors' Educational Opportunities
5201 US Highway 6
Portage, IN 46368
219-850-4448 (Office)
219-850-4445 (FAX)
http://www.neoadulted.org

New Community School

# THE NEW COMMUNITY SCHOOL, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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Donovan CPAs

*Independent Auditors' Report*

The Board of Directors
The New Community School, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of The New Community School, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net deficiency, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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.

**www.cpadonovan.com**
**Westside Office** | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411
**Northside Office** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New Community School, Inc. as of June 30, 2017 and 2016, and the change in its net deficiency, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming The New Community School, Inc. (the "Corporation") will continue as a going concern. As discussed in Note 2 to the financial statements, the Board of Directors elected to cease operations of the school effective December 2016. Although the legal entity operating the school has not yet been dissolved, all general school operations have ceased. This raises substantial doubt about the Corporation's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN

Donovan

Indianapolis, Indiana
May 11, 2018

# THE NEW COMMUNITY SCHOOL, INC.

## STATEMENTS OF FINANCIAL POSITION

**June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Grants receivable | $ - | $ 4,231 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 321,600 | 764,600 |
| Building | 4,274,312 | 4,274,312 |
| Building improvements | 267,606 | 267,606 |
| Furniture and equipment | 348,127 | 453,660 |
| Textbooks | 31,771 | 31,771 |
| Less: accumulated depreciation | (994,742) | (881,711) |
| *Property and equipment, net* | 4,248,674 | 4,910,238 |
| **TOTAL ASSETS** | $ 4,248,674 | $ 4,914,469 |
| **LIABILITIES AND NET DEFICIENCY** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of capital lease obligations | $ - | $ 202,600 |
| Current portion of note payable | 42,760 | 14,253 |
| Line of credit | - | 194,731 |
| Accounts payable | 36,688 | 72,563 |
| Accrued expenses | - | 51,315 |
| Refundable advances | 1,570 | 1,570 |
| Funds expended in excess of cash balance | 9,175 | - |
| *Total current liabilities* | 90,193 | 537,032 |
| **LONG-TERM LIABILITIES** | | |
| Capital lease obligations, net of current portion | 4,291,930 | 4,661,498 |
| Note payable, net of current portion | 242,305 | 270,812 |
| *Total liabilities* | 4,624,428 | 5,469,342 |
| **NET DEFICIENCY** | | |
| Unrestricted | (375,754) | (554,873) |
| **TOTAL LIABILITIES AND NET DEFICIENCY** | $ 4,248,674 | $ 4,914,469 |

# THE NEW COMMUNITY SCHOOL, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIENCY

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 484,409 | $ 1,303,807 |
| Grant revenue | 19,936 | 128,958 |
| Student fees | 5,292 | 24,401 |
| Contributions | 1,587 | 19,444 |
| Bond interest credit income | 341,400 | 341,400 |
| Forgiveness of debt | 202,332 | - |
| Gain from sale of capital lease property | 221,950 | - |
| Other income | 820 | 1,552 |
| *Total revenue and support* | 1,277,726 | 1,819,562 |
| **EXPENSES** | | |
| Program services | 956,556 | 1,853,421 |
| Management and general | 142,051 | 395,384 |
| *Total expenses* | 1,098,607 | 2,248,805 |
| **CHANGE IN NET DEFICIENCY** | 179,119 | (429,243) |
| **NET DEFICIENCY, BEGINNING OF YEAR** | (554,873) | (125,630) |
| **NET DEFICIENCY, END OF YEAR** | $ (375,754) | $ (554,873) |

See independent auditors' report and accompanying notes to the financial statements

**THE NEW COMMUNITY SCHOOL, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 210,784 | $ 56,500 | $ 267,284 | $ 732,677 | $ 188,029 | $ 920,706 |
| Employee benefits | 45,262 | 14,712 | 59,974 | 181206 | 47,997 | 229,203 |
| Staff development | - | - | - | 13,933 | - | 13,933 |
| Professional services | 10,992 | 30,338 | 41,330 | 51,257 | 37,064 | 88,321 |
| Repairs and maintenance | 8,574 | - | 8,574 | 22,925 | - | 22,925 |
| Authorizer oversight fees | - | - | - | - | 30,740 | 30,740 |
| Food costs | 1,651 | - | 1,651 | 11,747 | - | 11,747 |
| Equipment | 440 | - | 440 | 22,078 | - | 22,078 |
| Classroom, kitchen, and office supplies | 2,638 | 3,553 | 6,191 | 24,189 | 17,610 | 41,799 |
| Occupancy | 22,630 | - | 22,630 | 61,436 | - | 61,436 |
| Depreciation | 193,615 | - | 193,615 | 196,115 | - | 196,115 |
| Interest | 435,021 | 12,781 | 447,802 | 534,658 | 15,188 | 549,846 |
| Insurance | - | 13,808 | 13,808 | - | 24,293 | 24,293 |
| Loss on disposal of property and equipment | 24,949 | - | 24,949 | - | - | - |
| Other | - | 10,359 | 10,359 | 1,200 | 34,463 | 35,663 |
| *Total functional expenses* | $ 956,556 | $ 142,051 | $ 1,098,607 | $ 1,853,421 | $ 395,384 | $ 2,248,805 |

See independent auditors' report and accompanying notes to the financial statements

# THE NEW COMMUNITY SCHOOL, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net deficiency | $ 179,119 | $ (429,243) |
| Adjustments to reconcile change in net deficiency to net cash used in operating activities: | | |
| Depreciation | 193,615 | 196,115 |
| Loss on disposal of property and equipment | 24,949 | - |
| Forgiveness of debt | (202,332) | - |
| Gain on sale of capital lease property | (221,950) | |
| Changes in certain assets and liabilities: | | |
| Grants receivable | 4,231 | 21,922 |
| Prepaid expenses | - | 20,000 |
| Accounts payable | (35,875) | 29,971 |
| Accrued expenses | 41,467 | 13,420 |
| Refundable advances | - | 1,570 |
| Funds expended in excess of cash balance | 9,175 | - |
| *Net cash used in operating activities* | (7,601) | (146,245) |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | - | (8,624) |
| Cash released for facility improvements | - | 45,389 |
| *Net cash provided by investing activities* | - | 36,765 |
| **FINANCING ACTIVITIES** | | |
| Principal payments of capital lease obligations | - | (181,084) |
| Proceeds from note payable | - | 285,065 |
| Net proceeds (repayments) under line of credit | 7,601 | (2,996) |
| *Net cash provided by financing activities* | 7,601 | 100,985 |
| **NET CHANGE IN CASH** | - | (8,495) |
| **CASH, BEGINNING OF YEAR** | - | 8,495 |
| **CASH, END OF YEAR** | $ - | $ - |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 106,402 | $ 208,446 |
| Sale of capital lease property by lessor: | | |
| Reduction of capital lease obligations | 572,168 | - |
| Reduction of accrued interest due to lessor | 92,782 | - |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The New Community School, Inc. (the "Corporation") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The Corporation operated a public charter school (the "School") established under Indiana Code 20-24 and was sponsored by Ball State University through December 2016. The School, located in Lafayette, Indiana, provided educational instruction to approximately 210 students in grades kindergarten through eight. The Board of Directors elected to close the School effective December 2016.

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 monthly installments in July through June coinciding with 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.

Grants Receivable – Grants 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.

Contributions – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated for future periods. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Taxes on Income – The Corporation 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 Corporation would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued – Professional accounting standards require the Corporation 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 Corporation has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2013 are open to audit for both federal and state purposes.

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 $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:

| | |
|---|---|
| Building | 30 years |
| Building improvements | 5 years |
| Furniture and equipment | 3 to 5 years |
| Textbooks | 4 years |

Subsequent Events – The Corporation evaluated subsequent events through May 11, 2018, 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.

## NOTE 2 - GOING CONCERN / SCHOOL CLOSING

Effective December 2016, the Board of Directors voted to close the School simultaneously with the termination of its charter by Ball State University. Although the Corporation operating the School has not yet been dissolved, all general school operations have ceased. These factors raise substantial doubt about the Corporation's ability to continue as a going concern. The accompanying financial statements do not include any adjustments related to the closing of the School.

## NOTE 3 - LINE OF CREDIT

The School had a $200,000 line of credit with Regions Bank. The line of credit was due on demand and matured on October 1, 2016. Interest under the line of credit was payable at 2.3% above the lender's prime rate, but not less than 4.75%. The line of credit was secured by all inventory, accounts, equipment, general intangibles and fixtures. As of June 30, 2016, the balance outstanding under the line of credit was $194,731. The line of credit was forgiven in June 2017 when the balance outstanding was $202,332.

**NOTE 4 - NOTE PAYABLE**

The School received a note payable from the Indiana Common School Fund in February of 2016 in the amount of $285,065. The note is payable in semi-annual payments of principal and interest over a period of ten years, with interest at 1% per annum. None of the required principal payments were made in 2017. Those payments have been included in the current portion of note payable balance on the statements of financial position. Principal maturities of the note payable are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 42,760 |
| 2019 | 28,507 |
| 2020 | 28,507 |
| 2021 | 28,507 |
| 2022 | 28,507 |
| Thereafter | 128,277 |

**NOTE 5 - CAPITAL LEASE OBLIGATION**

During 2012, the Corporation committed to the construction of a school facility. The Corporation executed an agreement with NCS Properties LLC ("Landlord"), whereby Landlord assumed the responsibility for construction in exchange for a lease commitment from the Corporation. To facilitate the construction and lease, the Corporation obtained funding through a Qualified School Construction Bond authorized by the American Recovery & Reinvestment Act. At the end of the lease term (June 30, 2031), the Corporation has an option to purchase the building for $1.

The lease requires annual rental payments of $591,400. The Corporation receives an annual bond interest credit in the amount of approximately $341,400; therefore the Corporation's net annual cash obligation for rent is approximately $250,000. Each year, the Corporation recognizes contribution income for the bond interest credit received. As of June 30, 2017, the Corporation was past due by 14 monthly payments. As of June 30, 2017, the recorded cost and accumulated depreciation related to the building was $4,274,312 and $569,908, respectively.

In March 2017, the Landlord sold a portion of the land not containing the building. In conjunction with the sale, the Landlord provided to the Corporation a credit against the capital lease obligations and accrued interest totaling $664,950. The credit will be applied against the earliest future minimum lease payments, which has been reflected in the schedule on the following page.

### NOTE 5 - CAPITAL LEASE OBLIGATION, Continued

Following is a schedule of future minimum lease payments under the capital lease for the years ending June 30, and the present value of net minimum lease payments as of June 30, 2017:

| | Total Obligation | Annual Bond Interest Credit | Estimated Corporation Cash Requirement |
|---|---|---|---|
| 2018 | $ 341,400 | $ 341,400 | $ - |
| 2019 | 473,391 | 341,400 | 131,991 |
| 2020 | 591,400 | 341,400 | 250,000 |
| 2021 | 591,400 | 341,400 | 250,000 |
| 2022 | 591,400 | 341,400 | 250,000 |
| Thereafter | 5,322,600 | 3,072,600 | 2,250,000 |
| Total minimum lease payments | 7,911,591 | $ 4,779,600 | $ 3,131,991 |
| Less: amount representing interest | (3,619,661) | | |
| | $ 4,291,930 | | |

### NOTE 6 - RETIREMENT PLANS

Retirement benefits for School employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. INPRS acts as a common administrative and investment agent for units of state and local government in Indiana. Contribution requirements are determined by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 11% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense under these plans was $13,609 and $53,538 for the years ended June 30, 2017 and 2016, respectively.

Additionally, in 2016 the School began offering a 403(b) retirement plan to employees. The plan offers a 7% employer match. Retirement plan expense under this plan was $6,334 and $17,215 for the years ended June 30, 2017 and 2016, respectively.

### NOTE 7 - 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 had agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $30,740 for the year ended June 30, 2016. The charter was revoked effective with the closure of the School and no fees were charged for 2017.

## NOTE 8 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Tippecanoe 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 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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana.

## NOTE 9 - CONTINGENCY

To enable the construction of a new school facility, the Corporation obtained funding by means of a bond offering by the Indiana Finance Authority under the federal Qualified School Construction Bond program. The bonds were purchased by Keystone NCS LLC via a loan from Salin Bank and Trust Company. The Corporation executed an agreement with NCS Properties LLC whereby NCS Properties LLC would construct the facility and lease it to the Corporation (see Note 5). The Corporation provided construction financing to NCS Properties LLC with proceeds from the bond offering. Keystone NCS LLC and NCS Properties LLC are related entities.

NCS Properties LLC has assigned its rights to the lease payments to Salin Bank and Trust Company for the benefit of Keystone NCS LLC. Such lease payments are intended to fulfill the Corporation’s obligation under the bond offering. In the event that the lease is terminated for any reason, the Corporation will continue to be liable to Keystone NCS LLC for the bond debt.

# THE NEW COMMUNITY SCHOOL, INC.
## OTHER REPORT
## For the Year Ended June 30, 2017

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

Supplemental Audit Report of The New Community School, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

# THE NEW COMMUNITY SCHOOL, INC.

TIPPECANOE COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# THE NEW COMMUNITY SCHOOL, INC.
## TIPPECANOE COUNTY, INDIANA
## School Officials
## July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Jason King | 07/01/16 – 12/2016 |
| | Vacant | 12/2016 – 6/30/17 |
| Executive Director | Leitha Stone | 07/01/16 – 12/2016 |
| | Vacant | 12/2016 – 6/30/17 |
| Director of Finance and Operations | J.B. Farrell | 07/01/16 – 12/2016 |
| | Vacant | 12/2016 – 6/30/17 |

The Board of Directors
The New Community School, Inc.

We have audited the financial statements of The New Community School, Inc. (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated May 11, 2018. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
May 11, 2018

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**Westside Office** | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411
**Northside Office** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

**RECORD RETENTION**

We were unable to conduct a majority of the testing pertaining to compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts due to the lack of records and documentation of business and financial transactions. The School relinquished it charter and ceased operations in December 2016. Adequate provision was not made to retain School records in a satisfactory manner for retrieval, specifically:

1. Cash bond or insurance policy that protects the School from employee theft, fraud, errors, and omissions
2. ADM reports and supporting student count documentation
3. Form 9 submissions
4. Capital asset inventory documentation
5. Cash receipt books
6. Credit card disbursement documentation
7. Employee contracts, personnel files, and time records
8. Extra-curricular activity documentation

Additionally, we noted that departing teachers were allowed to take various items with them to their new schools, such as books, teaching materials, and furniture. No documentation was maintained of what items were taken.

Charter school administrators must be cognizant of their duties of care, loyalty, and obedience. The duty of care requires administrators to be familiar with the charter school's finances and activities and to participate regularly in its operations. Duty of loyalty requires that any conflict of interest, real or possible, always be disclosed in advance of being employed and when they arise. A charter school has the duty to insure that the school complies with applicable laws and regulations and its internal policies and procedures. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

**MINIMUM INTERNAL CONTROL STANDARDS**

Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

**VENDOR DISBURSEMENTS**

We selected a sample of 30 vendor disbursement transactions from throughout the year. Within this sample we noted the following compliance issues:

1. Eleven instances where the AP voucher was not certified or approved by school officials before payment was made.
2. Eleven instances where no invoice was provided to support the disbursement.

The Accounts Payable Voucher (Form 523) is designed to replace Claim Form 505. The form must be used in accordance with the following conditions: Charter schools may not draw a warrant or check for payment of a claim unless; (1) there is a fully itemized invoice or bill for the claim; (2) the invoice or bill is approved by the officer or person receiving the goods and services; (3) the invoice or bill is filed with the fiscal officer; (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and (5) payment of the claim is allowed by the board having jurisdiction over the allowance of the payment of the claim. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 2)

The charter school must establish procedures for the initiation, approval, and use of purchase requisitions and purchase orders. The procedures must include limits on approval of purchase orders after the purchase to emergency situations and all blanket purchases must have a fixed monetary limit. Upon receipt of the goods or services a charter school employee must verify the condition, quantity, and quality of the goods or services prior to payment of the invoice/bill/contract. Supporting documentation, such as invoices, shall be compared to purchase orders to ensure the prices, quantities, etc. are correct prior to payment.

# THE NEW COMMUNITY SCHOOL, INC.
## TIPPECANOE COUNTY, INDIANA
## Exit Conference
## July 1, 2016 to June 30, 2017

The contents of this report were discussed on May 9, 2018 with Jason King (President of Board of Directors). Because the School discontinued operations as a charter school in December 2016, no official response was obtained.

Options Charter School - Carmel

# OPTIONS CHARTER SCHOOL - CARMEL, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

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Donovan CPAs

*Independent Auditors' Report*

The Board of Directors
Options Charter School - Carmel, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Options Charter School - Carmel, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Options Charter School - Carmel, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
October 27, 2017

# OPTIONS CHARTER SCHOOL - CARMEL, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 827,660 | $ 744,077 |
| Accounts receivable | 3,563 | 110 |
| Current portion of note receivable | 75,000 | 37,500 |
| Prepaid expenses | 18,286 | 9,423 |
| *Total current assets* | 924,509 | 791,110 |
| **PROPERTY AND EQUIPMENT** | | |
| Leasehold improvements | 229,316 | 172,782 |
| Furniture and equipment | 498,125 | 475,804 |
| Less: accumulated depreciation | (538,327) | (512,812) |
| *Property and equipment, net* | 189,114 | 135,774 |
| **OTHER ASSETS** | | |
| Note receivable, net of current portion | 637,500 | 712,500 |
| **TOTAL ASSETS** | $ 1,751,123 | $ 1,639,384 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of note payable | $ 100,000 | $ 50,000 |
| Accounts payable and accrued expenses | 88,029 | 136,271 |
| Refundable advance | 5,812 | - |
| *Total current liabilities* | 193,841 | 186,271 |
| **NOTE PAYABLE, NET OF CURRENT PORTION** | 850,000 | 950,000 |
| *Total liabilities* | 1,043,841 | 1,136,271 |
| **NET ASSETS, UNRESTRICTED** | 707,282 | 503,113 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,751,123 | $ 1,639,384 |

See independent auditors' report and accompanying notes to the financial statements

## OPTIONS CHARTER SCHOOL - CARMEL, INC.

### STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 1,332,210 | $ 1,320,445 |
| Grant revenue | 264,870 | 243,925 |
| Student fees | 10,483 | 6,761 |
| Contribution from Options in Education Foundation, Inc. | 8,530 | 12,831 |
| Other income | 9,898 | 36,702 |
| *Total revenue and support* | 1,625,991 | 1,620,664 |
| **EXPENSES** | | |
| Program services | 801,172 | 827,902 |
| Management and general | 620,650 | 587,591 |
| *Total expenses* | 1,421,822 | 1,415,493 |
| **CHANGE IN NET ASSETS** | 204,169 | 205,171 |
| **NET ASSETS, BEGINNING OF YEAR** | 503,113 | 297,942 |
| **NET ASSETS, END OF YEAR** | $ 707,282 | $ 503,113 |

See independent auditors' report and accompanying notes to the financial statements

# OPTIONS CHARTER SCHOOL - CARMEL, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 355,127 | $ 348,368 | $ 703,495 | $ 361,172 | $ 323,797 | $ 684,969 |
| Employee benefits | 117,444 | 115,209 | 232,653 | 107,425 | 96,308 | 203,733 |
| Occupancy | 218,993 | 29,158 | 248,151 | 210,781 | 28,064 | 238,845 |
| Equipment | 28,013 | - | 28,013 | 66,845 | - | 66,845 |
| Professional services | 17,864 | 16,330 | 34,194 | 25,920 | 51,030 | 76,950 |
| Depreciation | 22,517 | 2,998 | 25,515 | 7,540 | 1,004 | 8,544 |
| Classroom and office supplies | 17,335 | 17,005 | 34,340 | 21,545 | 19,315 | 40,860 |
| Authorizer oversight fees | - | 28,391 | 28,391 | - | 27,716 | 27,716 |
| Insurance | - | 23,542 | 23,542 | - | 14,656 | 14,656 |
| Transportation | 1,560 | 1,531 | 3,091 | 2,043 | 1,831 | 3,874 |
| Interest | - | 10,284 | 10,284 | - | 2,767 | 2,767 |
| Other | 22,319 | 27,834 | 50,153 | 24,631 | 21,103 | 45,734 |
| *Total functional expenses* | $ 801,172 | $ 620,650 | $ 1,421,822 | $ 827,902 | $ 587,591 | $ 1,415,493 |

# OPTIONS CHARTER SCHOOL - CARMEL, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 204,169 | $ 205,171 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 25,515 | 8,544 |
| Change in certain assets and liabilities: | | |
| Accounts receivable | (3,453) | 2,230 |
| Prepaid expenses | (8,863) | (9,423) |
| Accounts payable and accrued expenses | (48,242) | 29,916 |
| Refundable advance | 5,812 | - |
| *Net cash provided by operating activities* | 174,938 | 236,438 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (78,855) | (93,582) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from note payable | - | 1,000,000 |
| Note payable proceeds transferred to Options Charter School - Noblesville, Inc. | - | (750,000) |
| Principal paid on note payable | (50,000) | - |
| Principal received from Options Charter School - Noblesville, Inc. | 37,500 | - |
| *Net cash provided by (used in) financing activities* | (12,500) | 250,000 |
| **NET CHANGE IN CASH** | 83,583 | 392,856 |
| **CASH, BEGINNING OF YEAR** | 744,077 | 351,221 |
| **CASH, END OF YEAR** | $ 827,660 | $ 744,077 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 8,301 | $ - |

See independent auditors' report and accompanying notes to the financial statements

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Options Charter School - Carmel, 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 is sponsored by Ball State University. The School serves students in grades nine to twelve by providing an alternative to traditional high school programs.

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 primarily 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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the 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 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.

Taxes on Income – Options Charter School - Carmel, 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 years ended June 30, 2017 and 2016, 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. Tax years ended after 2013 are open to audit for both federal and state purposes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $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 | 5 to 40 years |
| Furniture and equipment | 3 to 7 years |

Subsequent Events – The School evaluated subsequent events through October 27, 2017, 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.

## NOTE 2 - LINE OF CREDIT

The School has a $75,000 revolving line of credit with First Merchants Bank. Drawings against the line of credit bear interest at 2.5% above the lender's prime rate and are secured by all school assets. There was no balance outstanding under the line of credit as of June 30, 2017 or 2016.

## NOTE 3 - REFUNDABLE ADVANCE

The School has been awarded a grant from the Lilly Foundation, Inc. for the purpose of establishing comprehensive counseling services for students. The grant must be utilized for its intended purpose no later than December 31, 2017, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statements of financial position and had a balance of $5,812 at June 30, 2017.

## NOTE 4 - NOTE RECEIVABLE AND NOTE PAYABLE

During 2016, the School obtained a $1,000,000 note payable from the State Board of Education. The School immediately entered into an agreement to loan $750,000 of the proceeds to Options Charter School - Noblesville, Inc. ("Options - Noblesville"). The repayment terms with Options - Noblesville mirror the terms with the State Board of Education.

**NOTE 4 - NOTE RECEIVABLE AND NOTE PAYABLE, Continued**

Note payable consisted of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to State Board of Education, payable $50,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, advanced in February 2016. | $ 950,000 | $ 1,000,000 |
| Less: current portion | (100,000) | (50,000) |
| Long-term portion | $ 850,000 | $ 950,000 |

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School's future tuition support payments on the School's basic grant.

Note receivable consisted of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Note receivable from Options - Noblesville, receivable $37,500 semi-annually (January 1 and July 1) plus interest at 1.00% per annum. | $ 712,500 | $ 750,000 |
| Less: current portion | (75,000) | (37,500) |
| Long-term portion | $ 637,500 | $ 712,500 |

Principal maturities of the note payable and note receivable are as follows for the years ending June 30:

| | Note Payable | Note Receivable | Net |
|---|---|---|---|
| 2018 | $ 100,000 | $ 75,000 | $ 25,000 |
| 2019 | 100,000 | 75,000 | 25,000 |
| 2020 | 100,000 | 75,000 | 25,000 |
| 2021 | 100,000 | 75,000 | 25,000 |
| 2022 | 100,000 | 75,000 | 25,000 |
| Thereafter | 450,000 | 337,500 | 112,500 |
| | $ 950,000 | $ 712,500 | $ 237,500 |

## NOTE 5 - LEASES

The School leases its facility and certain items of office equipment under operating leases. The facility lease requires monthly payments over a twelve year term and provides that the School pay for the costs of its improvements as well as its proportionate share of real estate taxes and operating expenses. The School also pays to Options - Noblesville $1,725 per month for its share of rent related to the administrative offices. Expense under operating leases was $198,872 and $199,522 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease obligations are as follows for the years ended June 30:

| | | |
|---|---|---|
| 2018 | $ | 148,021 |
| 2019 | | 149,398 |
| 2020 | | 125,695 |
| 2021 | | 130,673 |

## NOTE 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. Expense under this charter agreement was $28,391 and $27,716 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

## NOTE 7 - RELATED PARTIES

The School is related to Options - Noblesville in that they have a common Board of Directors. Both schools advance amounts to each other as needed to meet cash flow requirements. The net balance owed to Options - Noblesville as of June 30, 2017 and 2016 was $16,904. The School paid Options - Noblesville $15,386 and $20,700 during the years ended June 30, 2017 and 2016, respectively, for a portion of the administrative expenses. The School is also contingently liable as a guarantor with respect to a $75,000 line of credit maintained by Options - Noblesville. At June 30, 2017 and 2016, there was no balance outstanding under the line of credit. The School also has a note receivable from Options - Noblesville as described in Note 4.

The School is also affiliated with Options in Education Foundation, Inc. (the "Foundation") in that the Foundation and the School have certain overlapping board members and that the Foundation solicits support and assistance to benefit the School. In the years ended June 30, 2017 and 2016, the School received financial assistance from the Foundation in the amounts of $8,530 and $12,831, respectively.

## NOTE 8 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 10.5% of compensation for electing teaching faculty to TRF and 11.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2016 (the latest year reported), both TRF and PERF were more than 80% funded.

Employees can also elect to participate in a School-sponsored 403(b) plan in lieu of TRF or PERF. The School contributes 10.5% of participant compensation to the 403(b) plan. Retirement plan expense was $76,364 and $64,165 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 9 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Hamilton 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 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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at First Merchants Bank are insured up to the FDIC insurance limit.

## NOTE 10 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

Options Charter School - Noblesville

# OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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*Independent Auditors' Report*

The Board of Directors
Options Charter School - Noblesville, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Options Charter School - Noblesville, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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.

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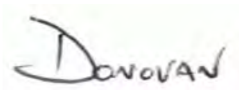
## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Options Charter School - Noblesville, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN




Indianapolis, Indiana
October 27, 2017

# OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 667,146 | $ 639,150 |
| Accounts receivable | - | 34,165 |
| Due from Options Charter School - Carmel, Inc. | 16,904 | 16,904 |
| Prepaid expenses | 19,606 | 11,594 |
| *Total current assets* | 703,656 | 701,813 |
| **PROPERTY AND EQUIPMENT** | | |
| Buildings and improvements | 2,054,997 | 1,928,004 |
| Furniture and equipment | 621,681 | 604,406 |
| Less: accumulated depreciation | (618,933) | (539,898) |
| *Property and equipment, net* | 2,057,745 | 1,992,512 |
| **TOTAL ASSETS** | $ 2,761,401 | $ 2,694,325 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 200,800 | $ 100,400 |
| Accounts payable and accrued expenses | 83,121 | 125,276 |
| Refundable advance | 9,550 | - |
| *Total current liabilities* | 293,471 | 225,676 |
| **NOTES PAYABLE, NET OF CURRENT PORTION** | 1,706,804 | 1,907,604 |
| *Total liabilities* | 2,000,275 | 2,133,280 |
| **NET ASSETS, UNRESTRICTED** | 761,126 | 561,045 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 2,761,401 | $ 2,694,325 |

See independent auditors' report and accompanying notes to the financial statements

# OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 1,719,211 | $ 1,555,621 |
| Grant revenue | 383,826 | 366,373 |
| Student fees | 10,641 | 8,729 |
| Contribution from Options in Education Foundation, Inc. | 10,820 | 13,794 |
| Other income | 25,392 | 23,700 |
| *Total revenue and support* | 2,149,890 | 1,968,217 |
| **EXPENSES** | | |
| Program services | 1,245,533 | 1,111,135 |
| Management and general | 704,276 | 576,140 |
| *Total expenses* | 1,949,809 | 1,687,275 |
| **CHANGE IN NET ASSETS** | 200,081 | 280,942 |
| **NET ASSETS, BEGINNING OF YEAR** | 561,045 | 280,103 |
| **NET ASSETS, END OF YEAR** | $ 761,126 | $ 561,045 |

See independent auditors' report and accompanying notes to the financial statements

# OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 485,042 | $ 391,463 | $ 876,505 | $ 442,646 | $ 328,520 | $ 771,166 |
| Employee benefits | 161,065 | 129,990 | 291,055 | 125,827 | 93,386 | 219,213 |
| Hope Source expenses | 337,446 | - | 337,446 | 173,899 | - | 173,899 |
| Occupancy | 77,792 | 13,087 | 90,879 | 201,462 | 33,891 | 235,353 |
| Equipment | 29,565 | - | 29,565 | 53,444 | - | 53,444 |
| Professional services | 25,173 | 25,726 | 50,899 | 17,455 | 33,639 | 51,094 |
| Depreciation | 67,654 | 11,381 | 79,035 | 36,174 | 6,085 | 42,259 |
| Classroom and office supplies | 27,369 | 22,089 | 49,458 | 22,885 | 16,985 | 39,870 |
| Authorizer oversight fees | - | 32,360 | 32,360 | - | 30,771 | 30,771 |
| Insurance | - | 23,597 | 23,597 | - | 14,655 | 14,655 |
| Transportation | 2,080 | 1,678 | 3,758 | 2,031 | 1,508 | 3,539 |
| Interest | - | 22,727 | 22,727 | - | 3,481 | 3,481 |
| Foundation expenses | 10,820 | - | 10,820 | 13,794 | - | 13,794 |
| Other | 21,527 | 30,178 | 51,705 | 21,518 | 13,219 | 34,737 |
| *Total functional expenses* | $ 1,245,533 | $ 704,276 | $ 1,949,809 | $ 1,111,135 | $ 576,140 | $ 1,687,275 |

See independent auditors' report and accompanying notes to the financial statements

# OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 200,081 | $ 280,942 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 79,035 | 42,259 |
| Changes in certain assets and liabilities: | | |
| Accounts receivable | 34,165 | (21,445) |
| Prepaid expenses | (8,012) | (11,178) |
| Accounts payable and accrued expenses | (42,155) | 5,577 |
| Refundable advance | 9,550 | - |
| *Net cash provided by operating activities* | 272,664 | 296,155 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (144,268) | (1,938,981) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from notes payable | - | 2,008,004 |
| Principal paid on notes payable | (100,400) | - |
| *Net cash provided by (used in) financing activities* | (100,400) | 2,008,004 |
| **NET CHANGE IN CASH** | 27,996 | 365,178 |
| **CASH, BEGINNING OF YEAR** | 639,150 | 273,972 |
| **CASH, END OF YEAR** | $ 667,146 | $ 639,150 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 16,669 | $ - |

See independent auditors' report and accompanying notes to the financial statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Options Charter School - Noblesville, 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 is sponsored by Ball State University. The School serves students in grades six to twelve by providing an alternative to traditional middle and high school programs.

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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the 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 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.

Taxes on Income – Options Charter School - Noblesville, 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $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:

| | |
|---|---|
| Buildings and improvements | 40 years |
| Furniture and equipment | 3 to 7 years |

Reclassifications – There have been certain reclassifications in the statement of functional expenses for the prior year in order to have consistency with current year presentation. These reclassifications had no effect on total expenses or reported results of operations.

Subsequent Events – The School evaluated subsequent events through October 27, 2017, 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.

## NOTE 2 - LINE OF CREDIT

The School has a $75,000 revolving line of credit with First Merchants Bank. Drawings against the line of credit bear interest at 2.5% above the lender's prime rate and are secured by all school assets. There was no balance outstanding under the line of credit as of June 30, 2017 or 2016.

## NOTE 3 - REFUNDABLE ADVANCE

The School has been awarded a grant from the Lilly Foundation, Inc. for the purpose of establishing comprehensive counseling services for students. The grant must be utilized for its intended purpose no later than December 31, 2017, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statements of financial position and had a balance of $9,550 at June 30, 2017.

## NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to State Board of Education, payable $62,900 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, advanced in March 2016 | $ 1,195,104 | $ 1,258,004 |
| Note payable to Options Charter School - Carmel, Inc., payable $37,500 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, advanced in March 2016 | 712,500 | 750,000 |
| | 1,907,604 | 2,008,004 |
| Less: current portion | (200,800) | (100,400) |
| Long-term portion | $ 1,706,804 | $ 1,907,604 |

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School's future tuition support payments on the School's basic grant.

The note payable to Options Charter School - Carmel, Inc. ("Options - Carmel"), a related charter school, is also the result of the Common School Funds Charter School Innovation Fund Advancement program. Options - Carmel received a similar loan to the loan received by the School, and a portion of the loan was transferred to the School. The School has agreed to repay the loan following a similar payment schedule set by the State Board of Education.

Principal maturities of the notes payable are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 200,800 |
| 2019 | 200,800 |
| 2020 | 200,800 |
| 2021 | 200,800 |
| 2022 | 200,800 |
| Thereafter | 903,604 |
| | $ 1,907,604 |

## NOTE 5 - LEASES

The School leased its school facility, administrative offices and storage space, and certain office equipment under multi-year operating leases. In March 2016, the School purchased the office building, thus eliminating the lease payments. The School was also responsible for utilities and insurance relating to the real estate leases. Options - Carmel reimburses the School at the rate of $1,725 per month for its share of rent relating to the administrative offices. Expense under these leases for the years ended June 30, 2017 and 2016 was $8,244 and $118,328, respectively.

Future minimum obligations under the equipment leases are $3,852 for the year ended June 30, 2018.

## NOTE 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. Expense under this charter agreement was $32,360 and $30,771 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

## NOTE 7 - RELATED PARTIES

The School is related to Options - Carmel in that they have a common Board of Directors. Both schools advance amounts to each other as needed to meet cash flow requirements. The net balance due from Options - Carmel as of June 30, 2017 and 2016 was $16,904. Options - Carmel paid the School $15,386 and $20,700 during the years ended June 30, 2017 and 2016, respectively, for a portion of the administrative expenses. The School is also contingently liable as a guarantor with respect to a $75,000 line of credit maintained by Options - Carmel. At June 30, 2017 and 2016, there was no balance outstanding under the line of credit. The School also has a note payable to Options - Carmel as described in Note 4.

The School is also affiliated with Options in Education Foundation, Inc. (the “Foundation”) in that the Foundation and the School have certain overlapping board members and that the Foundation solicits support and assistance to benefit the School. In the years ended June 30, 2017 and 2016, the School received financial assistance from the Foundation in the amounts of $10,820 and $13,794, respectively.

## NOTE 8 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 10.5% of compensation for electing teaching faculty to TRF and 11.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2016 (the latest year reported), both TRF and PERF were more than 80% funded.

Employees can also elect to participate in a School-sponsored 403(b) plan in lieu of TRF or PERF. The School contributes 10.5% of participant compensation to the 403(b) plan. Retirement plan expense was $95,731 and $75,660 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 9 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Hamilton 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 may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentration of credit risk consist principally of receivables from the State of Indiana. At June 30, 2017 and 2016, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits maintained at First Merchants Bank are insured up to the FDIC insurance limit.

## NOTE 10 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

Renaissance Academy Charter School

# RENAISSANCE ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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**Donovan CPAs**

***Independent Auditors' Report***

The Board of Directors
Renaissance Academy, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Renaissance Academy, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Renaissance Academy, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Indianapolis, Indiana
December 15, 2017

# RENAISSANCE ACADEMY, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 350,995 | $ 438,672 |
| Grants receivable | 74,926 | 69,671 |
| Other receivables, net of allowance for doubtful accounts | 38,945 | 35,435 |
| *Total current assets* | 464,866 | 543,778 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 355,346 | 355,346 |
| Buildings and improvements | 681,121 | 666,821 |
| Leasehold improvements | 640,199 | 638,524 |
| Furniture and equipment | 150,409 | 136,338 |
| Vehicles | 57,916 | 63,391 |
| Textbooks | 26,698 | 26,698 |
| Less: accumulated depreciation | (574,315) | (509,414) |
| *Property and equipment, net* | 1,337,374 | 1,377,704 |
| **TOTAL ASSETS** | $ 1,802,240 | $ 1,921,482 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 69,670 | $ 67,405 |
| Accounts payable and accrued expenses | 111,851 | 76,894 |
| Deferred revenue | 58,719 | 59,435 |
| Refundable advance | 10,365 | - |
| *Total current liabilities* | 250,605 | 203,734 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | 521,496 | 590,693 |
| *Total liabilities* | 772,101 | 794,427 |
| **NET ASSETS, UNRESTRICTED** | 1,030,139 | 1,127,055 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,802,240 | $ 1,921,482 |

# RENAISSANCE ACADEMY, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 1,427,745 | $ 1,400,279 |
| Grant revenue | 218,890 | 251,313 |
| Student fees | 220,512 | 202,584 |
| Fundraising income | 48,683 | 44,687 |
| Other income | 14,777 | 34,479 |
| *Total revenue and support* | 1,930,607 | 1,933,342 |
| **EXPENSES** | | |
| Program services | 1,421,880 | 1,211,071 |
| Management and general | 605,643 | 566,026 |
| *Total expenses* | 2,027,523 | 1,777,097 |
| **CHANGE IN NET ASSETS** | (96,916) | 156,245 |
| **NET ASSETS, BEGINNING OF YEAR** | 1,127,055 | 970,810 |
| **NET ASSETS, END OF YEAR** | $ 1,030,139 | $ 1,127,055 |

See independent auditors' report and accompanying notes to the financial statements

# RENAISSANCE ACADEMY, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 707,511 | $ 298,362 | $ 1,005,873 | $ 607,823 | $ 293,853 | $ 901,676 |
| Employee benefits | 156,613 | 114,836 | 271,449 | 136,517 | 104,126 | 240,643 |
| Professional services | 27,087 | 21,810 | 48,897 | 32,220 | 20,386 | 52,606 |
| Staff development and recruitment | 53,630 | - | 53,630 | 50,068 | - | 50,068 |
| Authorizer oversight fees | - | 37,397 | 37,397 | - | 36,873 | 36,873 |
| Transportation | 616 | 100 | 716 | 680 | - | 680 |
| Food costs | 34,537 | - | 34,537 | 33,633 | - | 33,633 |
| Classroom, kitchen, and office supplies | 42,789 | 19,146 | 61,935 | 35,770 | 13,226 | 48,996 |
| Field trips and events | 75,685 | - | 75,685 | 62,427 | - | 62,427 |
| Occupancy | 146,123 | - | 146,123 | 137,320 | - | 137,320 |
| Repairs and maintenance | 64,526 | - | 64,526 | 37,412 | - | 37,412 |
| Depreciation | 78,986 | - | 78,986 | 76,351 | - | 76,351 |
| Interest | - | 30,359 | 30,359 | - | 32,615 | 32,615 |
| Insurance | - | 35,119 | 35,119 | - | 26,789 | 26,789 |
| Bad debt | - | 8,345 | 8,345 | - | 4,525 | 4,525 |
| Loss on failure to submit grant | 27,416 | - | 27,416 | - | - | - |
| Other | 6,361 | 40,169 | 46,530 | 850 | 33,633 | 34,483 |
| *Total functional expenses* | $ 1,421,880 | $ 605,643 | $ 2,027,523 | $ 1,211,071 | $ 566,026 | $ 1,777,097 |

# RENAISSANCE ACADEMY, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (96,916) | $ 156,245 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by operating activities: | | |
| Depreciation | 78,986 | 76,351 |
| Gain from disposal of fixed assets | (3,035) | - |
| Change in certain assets and liabilities: | | |
| Grants receivable | (5,255) | (39,378) |
| Other receivables | (3,510) | (18,347) |
| Accounts payable and accrued expenses | 34,957 | (12,802) |
| Deferred revenue | (716) | 7,486 |
| Refundable advance | 10,365 | - |
| *Net cash provided by operating activities* | 14,876 | 169,555 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from disposal of fixed assets | 8,604 | - |
| Purchases of property and equipment | (44,225) | (100,546) |
| *Net cash used in financing activities* | (35,621) | (100,546) |
| **FINANCING ACTIVITIES** | | |
| Principal payments on notes payable | (66,932) | (64,676) |
| **NET CHANGE IN CASH** | (87,677) | 4,333 |
| **CASH, BEGINNING OF YEAR** | 438,672 | 434,339 |
| **CASH, END OF YEAR** | $ 350,995 | $ 438,672 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 30,359 | $ 32,615 |

# RENAISSANCE ACADEMY, INC.
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Renaissance 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 public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. The School serves approximately 245 students in grades kindergarten to eight. The School also provides an early childhood education program for children ages three and four on a fee basis.

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 is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the 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.

Program and activity fees are paid by families based on the number of children enrolled in the activities selected, and are recognized in the year to which the payments pertain.

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.

Grants and Other Receivables – Grants 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 with regard to such receivables. Other receivables include student and preschool fees and are reviewed for collectability on an annual basis. The accompanying statements of financial position reflect allowances for doubtful accounts of $52,250 and $53,320 as of June 30, 2017 and 2016, respectively.

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 and minor replacement costs 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:

| | |
|---|---|
| Buildings and improvements | 39 years |
| Leasehold improvements | 5 to 15 years |
| Furniture and equipment | 3 to 7 years |
| Vehicles | 5 years |
| Textbooks | 3 years |

Deferred Revenue – Deferred revenue consists of enrollment fees and materials and supplies fees received as part of the enrollment process for the subsequent academic school year.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

Taxes on Income – Renaissance 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 15, 2017, 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.

## NOTE 2 - NOTES PAYABLE

Notes payable were comprised of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to 1st Source Bank, payable in monthly installments of $3,575 including interest at 1.8% per annum through January 2020, secured by assets purchased with the note proceeds and guaranteed by the school facility landlord (see Note 4) | $ 108,563 | $ 149,081 |
| Mortgage note payable to 1st Source Bank, payable in monthly installments of $4,532 including interest at 5.55% per annum through September 2019, with a lump-sum payment of $417,381 due October 2019, secured by a mortgage on school facilities | 482,603 | 509,017 |
| | 591,166 | 658,098 |
| Less: current portion | (69,670) | (67,405) |
| Long-term portion | $ 521,496 | $ 590,693 |

## NOTE 2 - NOTES PAYABLE, Continued

Principal maturities of notes payable are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 69,670 |
| 2019 | | 72,034 |
| 2020 | | 449,462 |
| | $ | 591,166 |

## NOTE 3 - REFUNDABLE ADVANCE

The School has been awarded grants to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017, the School had refundable grant advances in excess of expenditures of $10,365. There were no refundable advances at June 30, 2016.

## NOTE 4 - LEASES

The School leases a portion of the school facilities from V&K, LLC under a 10-year lease that ends June 30, 2027. The lease is accounted for as an operating lease. V&K, LLC is owned by Kieran McHugh and Vicki McHugh, both of whom are employees of the School. Under the lease agreement, monthly base rent is $8,191 (adjusted annually by the rate of inflation, as defined) and the School is responsible for all utilities and insurance on the contents. Expense under this lease for the years ended June 30, 2017 and 2016 was $102,348 and $101,136, respectively.

Future minimum lease obligations under this lease (ignoring the annual rate of inflation adjustment) are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 98,292 |
| 2019 | | 98,292 |
| 2020 | | 98,292 |
| 2021 | | 98,292 |
| 2022 | | 98,292 |
| Thereafter | | 491,460 |
| | $ | 982,920 |

## NOTE 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 payments received. Expense under this charter agreement was $37,397 and $36,873 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2022, and is renewable thereafter by mutual consent.

## NOTE 6 - RETIREMENT PLANS

Retirement benefits for school employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. INPRS acts as a common administrative and investment agent for units of state and local government in Indiana. Contribution requirements of plan members are determined by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for teaching faculty to TRF. The contribution to PERF for other employees was 11.2%. Substantially all full-time employees are eligible to participate. Retirement plan expense was $70,873 and $69,955 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in LaPorte 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 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, 2017, substantially all of the grants receivable balance was due from the State of Indiana. All cash deposits are maintained at 1st Source Bank and are insured up to the FDIC insurance up to the legal limit.

## NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

# RENAISSANCE ACADEMY, INC.
## OTHER REPORT
## For the Year Ended June 30, 2017

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

Supplemental Audit Report of Renaissance 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.

SUPPLEMENTAL AUDIT REPORT
OF
**RENAISSANCE ACADEMY, INC.**

LAPORTE COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# RENAISSANCE ACADEMY, INC.
## LAPORTE COUNTY, INDIANA
### School Officials
### July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Susan Cress | 07/01/16 – 06/30/17 |
| Head of School | Kieran McHugh | 07/01/16 – 06/30/17 |
| Treasurer | Heidi Potucek | 07/01/16 – 06/30/17 |

The Board of Directors
Renaissance Academy, Inc.

We have audited the financial statements of Renaissance Academy, Inc. (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated December 15, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 15, 2017

### RECEIPTS AND DEPOSITS

The School receives cash for various purposes including textbook fees, field trips, enrollment, fundraising, and various other items. Procedures were in place to process cash collections; however, we noted 14 instances in our sample of 25 cash receipt transactions where the bank deposit was not made in a timely manner. The span of time between the date of collection and the date of deposit ranged from 7 to 13 days.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

### MINIMUM INTERNAL CONTROL STANDARDS

Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

### REQUIRED REPORTS

The School submits a Form 9 Biannual Financial Report two times per year. Upon review of the submitted Form 9s it was determined that the ending cash balance reported on the Form 9 tied to the ending cash balance as reported by the financial statements; however, the fund activity reported on the Form 9 does not accurately reflect fund activity during the year.

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

## RENAISSANCE ACADEMY, INC.
### LAPORTE COUNTY, INDIANA
### Exit Conference
### July 1, 2016 to June 30, 2017

The contents of this report were discussed on December 15, 2017 with Lori Gayheart (Business Manager), Tina Bushue (Accountant), and Jack Stewart (Board Vice President). The Official Response has been made a part of this report and may be found on page 5.

Renaissance Academy

SUPPLEMENTAL AUDIT REPORT RESPONSES

RECEIPTS AND DEPOSITS

The accountant employed by Renaissance is part-time. It is cost and time prohibitive for a bank deposit to be made daily. Deposits are typically made on a weekly basis unless payments are received immediately prior to school breaks, such as in the winter and spring, or during the summer, when it would be fiscally irresponsible to compensate our part-time accountant to come in to deposit small amounts of money. Monies waiting to be deposited are kept in a secure office in a secure cabinet accessible only to authorized personnel. Barring any unusual circumstances such as the school being on break, or the accountant being absent, deposits will routinely be made every week.

MINIMUM INTERNAL CONTROLS STANDARDS

On June 21, 2017 the Board adopted the minimum control standards set forth by IC 5-11-1-27(g). The training by applicable personnel that did not become required until after this audited will be conducted by the end of January 2018.

REQUIRED REPORTS

While Renaissance makes every effort to code expenses to the appropriate fund account at the time of input, occasionally transactions must be recoded after the financial period has already been reported on the Form 9. Renaissance will continue to make every effort to have the Form 9 accurately reflect fund activity during the year.

Submitted by:

Lori Gayheart
Chief Administrator



4093 West US20, LaPorte, Indiana 46350
(219) 878-8711 www.rschool.net info@rschool.net

Rock Creek Community Academy

# ROCK CREEK COMMUNITY ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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Donovan CPAs

***Independent Auditors' Report***

The Board of Directors
Rock Creek Community Academy, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Rock Creek Community Academy, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Rock Creek Community Academy, Inc. as of June 30, 2017 and 2016, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
October 16, 2017

# ROCK CREEK COMMUNITY ACADEMY, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 1,002,012 | $ 803,665 |
| Grants receivable | 10,700 | 38,229 |
| Accounts receivable | - | 3,858 |
| Prepaid expenses | 54,457 | 34,961 |
| *Total current assets* | 1,067,169 | 880,713 |
| **SECURITY DEPOSIT** | 4,000 | 4,000 |
| **PROPERTY AND EQUIPMENT** | | |
| Leasehold improvements | 555,013 | 555,013 |
| Furniture and equipment | 586,602 | 552,555 |
| Textbooks | 358,464 | 330,654 |
| Less: accumulated depreciation | (1,218,746) | (1,022,943) |
| *Property and equipment, net* | 281,333 | 415,279 |
| **TOTAL ASSETS** | $ 1,352,502 | $ 1,299,992 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of note payable | $ - | $ 18,567 |
| Accounts payable and accrued expenses | 270,752 | 236,330 |
| Deferred revenue | 116,304 | 127,210 |
| Refundable advances | 1,333 | - |
| *Total current liabilities* | 388,389 | 382,107 |
| **NET ASSETS** | | |
| Unrestricted | 930,763 | 871,311 |
| Temporarily restricted | 33,350 | 46,574 |
| *Total net assets* | 964,113 | 917,885 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,352,502 | $ 1,299,992 |

See independent auditors' report and accompanying notes to the financial statements.

## ROCK CREEK COMMUNITY ACADEMY, INC.

### STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| **REVENUE AND SUPPORT** | | | | | | |
| State education support | $ 3,150,312 | $ - | $ 3,150,312 | $ 2,983,340 | $ - | $ 2,983,340 |
| Grant revenue | 514,131 | - | 514,131 | 512,093 | - | 512,093 |
| Student fees | 252,046 | 49,286 | 301,332 | 220,764 | 57,280 | 278,044 |
| Contributions | 15,950 | 3,950 | 19,900 | 30,917 | 7,515 | 38,432 |
| Fundraising income | 33,271 | 68,153 | 101,424 | 11,279 | 65,274 | 76,553 |
| Net assets released from restrictions | 134,613 | (134,613) | - | 123,648 | (123,648) | - |
| *Total revenue and support* | 4,100,323 | (13,224) | 4,087,099 | 3,882,041 | 6,421 | 3,888,462 |
| **EXPENSES** | | | | | | |
| Program services | 3,403,741 | - | 3,403,741 | 3,278,114 | - | 3,278,114 |
| Management and general | 637,130 | - | 637,130 | 581,629 | - | 581,629 |
| *Total expenses* | 4,040,871 | - | 4,040,871 | 3,859,743 | - | 3,859,743 |
| **CHANGE IN NET ASSETS** | 59,452 | (13,224) | 46,228 | 22,298 | 6,421 | 28,719 |
| **NET ASSETS, BEGINNING OF YEAR** | 871,311 | 46,574 | 917,885 | 849,013 | 40,153 | 889,166 |
| **NET ASSETS, END OF YEAR** | $ 930,763 | $ 33,350 | $ 964,113 | $ 871,311 | $ 46,574 | $ 917,885 |

See independent auditors' report and accompanying notes to the financial statements.

## ROCK CREEK COMMUNITY ACADEMY, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 1,544,350 | $ 325,972 | $ 1,870,322 | $ 1,529,611 | $ 325,855 | $ 1,855,466 |
| Employee benefits | 369,696 | 66,296 | 435,992 | 382,203 | 63,017 | 445,220 |
| Staff development | 31,682 | - | 31,682 | 20,956 | - | 20,956 |
| Professional services | 409,592 | 75,586 | 485,178 | 280,662 | 61,134 | 341,796 |
| Repairs and maintenance | 39,244 | - | 39,244 | 52,096 | - | 52,096 |
| Authorizer oversight fees | - | 75,709 | 75,709 | - | 72,791 | 72,791 |
| Food costs | 53,322 | - | 53,322 | 59,067 | - | 59,067 |
| Equipment | 50,983 | - | 50,983 | 43,167 | - | 43,167 |
| Classroom, kitchen, and office supplies | 219,502 | 19,031 | 238,533 | 214,161 | 5,780 | 219,941 |
| Occupancy | 373,898 | - | 373,898 | 383,471 | - | 383,471 |
| Depreciation | 195,803 | - | 195,803 | 219,382 | - | 219,382 |
| Field trips | 53,840 | - | 53,840 | 47,897 | - | 47,897 |
| Interest | - | 661 | 661 | - | 3,742 | 3,742 |
| Insurance | - | 34,574 | 34,574 | - | 32,506 | 32,506 |
| Advertising | - | 18,342 | 18,342 | - | - | - |
| Loss on disposal of assets | - | - | - | 7,278 | - | 7,278 |
| Other | 61,829 | 20,959 | 82,788 | 38,163 | 16,804 | 54,967 |
| *Total functional expenses* | $ 3,403,741 | $ 637,130 | $ 4,040,871 | $ 3,278,114 | $ 581,629 | $ 3,859,743 |

See independent auditors' report and accompanying notes to the financial statements.

# ROCK CREEK COMMUNITY ACADEMY, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 46,228 | $ 28,719 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 195,803 | 211,660 |
| Loss on disposal of assets | - | 7,278 |
| Change in: | | |
| Grants receivable | 27,529 | (21,996) |
| Accounts receivable | 3,858 | (3,858) |
| Prepaid expenses | (19,496) | 291 |
| Security deposit | - | 11,775 |
| Accounts payable and accrued expenses | 34,422 | 25,867 |
| Deferred revenue | (10,906) | (1,130) |
| Refundable advances | 1,333 | (3,189) |
| *Net cash provided by operating activities* | 278,771 | 255,417 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (61,857) | (86,089) |
| Proceeds from sale of property and equipment | - | 971 |
| *Net cash used in investing activities* | (61,857) | (85,118) |
| **FINANCING ACTIVITIES** | | |
| Principal repayments of note payable | (18,567) | (34,478) |
| **NET CHANGE IN CASH** | 198,347 | 135,821 |
| **CASH, BEGINNING OF YEAR** | 803,665 | 667,844 |
| **CASH, END OF YEAR** | $ 1,002,012 | $ 803,665 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 661 | $ 3,742 |

See independent auditors' report and accompanying notes to the financial statements.

# ROCK CREEK COMMUNITY ACADEMY, INC.
## NOTES TO THE FINANCIAL STATEMENTS
### For the Years Ended June 30, 2017 and 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – Rock Creek Community 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 public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. The School, located in Sellersburg, Indiana, provided educational instruction to approximately 500 students in grades kindergarten to twelve during the 2016-2017 academic 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 primarily 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 is paid in monthly installments in July through June coinciding with 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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs 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.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.

- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

Contributions and Fees – The School receives resources from participation fees and fundraising events that support certain school activities. These receipts are reported as restricted support in that they are received with stipulations that limit their use. When a donor restriction expires, that is, when the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 $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:

| | |
|---|---|
| Textbooks | 5 years |
| Leasehold improvements | 5 to 8 years |
| Furniture and equipment | 3 to 5 years |

Deferred Revenue – Deferred revenue consists of student fees and textbook rentals received as part of the enrollment process for the subsequent academic school year.

Taxes on Income – Rock Creek Community Academy, Inc. has received a determination from the U.S. Internal Revenue Service 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

Reclassifications – Certain figures for 2016 that were previously reported have been reclassified for comparative purposes.

Subsequent Events – The School evaluated subsequent events through October 16, 2017, 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.

## NOTE 2 - REFUNDABLE ADVANCES

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017, the School had refundable grant advances in excess of expenditures of $1,333. There were no refundable advances at June 30, 2016.

## NOTE 3 - NOTE PAYABLE

Note payable as of June 30, 2016 was comprised of a note payable to Mobilease Modular Space, Inc. This note represented an obligation for site improvements relating to the installation of modular classrooms. The note was payable in monthly installments of $3,185, including interest at 10% per annum, through December 2016. The outstanding balance at June 30, 2016 was $18,567. The note was repaid in full during 2017.

## NOTE 4 - LEASES

The School leases its school facility, modular classrooms, and items of equipment under operating leases. Under the facility lease, the School is also responsible for repairs, maintenance, and utilities. Total expense under these operating leases for 2017 and 2016 was $283,254 and $305,098, respectively. Minimum future rental payments as of June 30, 2017 for all operating leases with noncancellable lease terms in excess of one year are as follows for the years ending June 30:

| | |
|---|---|
| 2018 | $ 187,080 |
| 2019 | 132,000 |
| 2020 | 132,000 |

## NOTE 5 - RETIREMENT PLAN

The School maintains a Section 403(b) defined contribution retirement plan with Mass Mutual Financial Group for the benefit of its employees. Substantially all full-time employees are eligible to participate. Under the plan, the School contributes 7.5% of each participant's compensation for the plan year. Retirement plan expense for the years ended June 30, 2017 and 2016 was $134,537 and $141,745, respectively.

## NOTE 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. The charter remains in effect until June 30, 2020, and is renewable thereafter by mutual consent. Payments under this charter agreement were $75,709 and $72,791 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Clark 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 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, 2017, substantially all of the grants receivable balance was due from the State of Indiana. Cash deposits are maintained at New Washington State Bank and normally exceed the FDIC insurance limit.

## NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services.

Rural Community Academy

# RURAL COMMUNITY SCHOOLS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan CPAs

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# Donovan CPAs

## *Independent Auditors' Report*

The Board of Directors
Rural Community Schools, Inc.

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Rural Community Schools, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

### *Auditors' 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 auditors' 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 auditors consider 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 Rural Community Schools, Inc. as of June 30, 2017 and 2016 and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
November 21, 2017

# RURAL COMMUNITY SCHOOLS, INC.

## STATEMENTS OF FINANCIAL POSITION

### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 558,248 | $ 509,674 |
| Grants receivable | 16,264 | 2,612 |
| *Total current assets* | 574,512 | 512,286 |
| **PROPERTY AND EQUIPMENT** | | |
| Leasehold improvements | 145,820 | 112,654 |
| Furniture and equipment | 315,379 | 283,424 |
| Textbooks and library books | 70,625 | 66,575 |
| Less: accumulated depreciation | (295,380) | (245,689) |
| *Property and equipment, net* | 236,444 | 216,964 |
| **TOTAL ASSETS** | $ 810,956 | $ 729,250 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 65,892 | $ 55,950 |
| Refundable advances | 2,865 | - |
| *Total current liabilities* | 68,757 | 55,950 |
| **NET ASSETS, UNRESTRICTED** | 742,199 | 673,300 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 810,956 | $ 729,250 |

# RURAL COMMUNITY SCHOOLS, INC.

## STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

**For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 1,298,986 | $ 1,155,043 |
| Grant revenue | 308,713 | 292,600 |
| Student fees | 37,369 | 32,486 |
| Extracurricular activities revenue | 33,353 | 24,531 |
| Contributions | 9,068 | 39,856 |
| Other income | 9,956 | 5,222 |
| *Total revenue and support* | 1,697,445 | 1,549,738 |
| **EXPENSES** | | |
| Program services | 1,353,139 | 1,186,649 |
| Management and general | 275,407 | 222,949 |
| *Total expenses* | 1,628,546 | 1,409,598 |
| **CHANGE IN NET ASSETS** | 68,899 | 140,140 |
| **NET ASSETS, BEGINNING OF YEAR** | 673,300 | 533,160 |
| **NET ASSETS, END OF YEAR** | $ 742,199 | $ 673,300 |

## RURAL COMMUNITY SCHOOLS, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 777,171 | $ 136,841 | $ 914,012 | $ 662,304 | $ 103,030 | $ 765,334 |
| Employee benefits | 181,896 | 36,948 | 218,844 | 159,477 | 28,079 | 187,556 |
| Staff development | 10,574 | - | 10,574 | 9,579 | - | 9,579 |
| Professional services | 41,838 | 4,656 | 46,494 | 46,913 | 7,112 | 54,025 |
| Textbooks and education materials | 5,622 | - | 5,622 | 8,111 | - | 8,111 |
| Authorizer oversight fees | - | 25,872 | 25,872 | - | 21,644 | 21,644 |
| Food costs | 77,667 | - | 77,667 | 77,121 | - | 77,121 |
| Transportation | 25,949 | 387 | 26,336 | 20,904 | 1,256 | 22,160 |
| Equipment and rentals | 22,602 | 19,951 | 42,553 | 17,715 | 16,135 | 33,850 |
| Classroom, kitchen, and office supplies | 20,347 | 15,689 | 36,036 | 20,902 | 14,067 | 34,969 |
| Extracurricular activities | 37,948 | - | 37,948 | 19,512 | - | 19,512 |
| Occupancy | 101,291 | 4,144 | 105,435 | 98,243 | 2,283 | 100,526 |
| Depreciation | 49,690 | - | 49,690 | 42,771 | - | 42,771 |
| Insurance | - | 17,918 | 17,918 | - | 16,398 | 16,398 |
| Advertising | - | 4,481 | 4,481 | - | 6,605 | 6,605 |
| Other | 544 | 8,520 | 9,064 | 3,097 | 6,340 | 9,437 |
| *Total functional expenses* | $ 1,353,139 | $ 275,407 | $ 1,628,546 | $ 1,186,649 | $ 222,949 | $ 1,409,598 |

# RURAL COMMUNITY SCHOOLS, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 68,899 | $ 140,140 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by operating activities: | | |
| Depreciation | 49,690 | 42,771 |
| Change in certain assets and liabilities: | | |
| Grants receivable | (13,652) | 3,325 |
| Accounts payable and accrued expenses | 9,942 | (5,160) |
| Refundable advances | 2,865 | - |
| *Net cash provided by operating activities* | 117,744 | 181,076 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (69,170) | (61,725) |
| **NET CHANGE IN CASH** | 48,574 | 119,351 |
| **CASH, BEGINNING OF YEAR** | 509,674 | 390,323 |
| **CASH, END OF YEAR** | $ 558,248 | $ 509,674 |

See independent auditors' report and accompanying notes to the financial statements

# RURAL COMMUNITY SCHOOLS, INC.
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Rural Community Schools, 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 is sponsored by Ball State University. The School provides educational instruction to approximately 170 students in grades kindergarten through eight.

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 is paid in monthly installments in July through June coinciding with 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.

Grants Receivable – Grants 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.

Contributions – Contributions received are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Taxes on Income – Rural Community Schools, 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 and minor replacement costs 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 | 15 to 40 years |
| Furniture and equipment | 5 to 10 years |
| Textbook and library books | 5 years |

Prior Period Adjustment – Revenue and expenses for the year ended June 30, 2016 have both been adjusted by $41,280 for a grant received and expended that was erroneously not recorded on the School's financial statements. This adjustment had no effect on net assets as of June 30, 2016.

Subsequent Events – The School evaluated subsequent events through November 21, 2017, 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.

## NOTE 2 - REFUNDABLE ADVANCES

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017 the School had refundable grant advances in excess of expenditures of $2,865. No such refundable advances existed as of June 30, 2016.

## NOTE 3 - LEASES

The School leases its facility and certain items of office equipment under operating leases. The facility lease is renewable annually and provides for monthly rental payments of $1,000. The School is also responsible for the cost of utilities and maintenance, which approximates $2,750 monthly. Future minimum lease obligations as of June 30, 2017 for non-cancelable operating leases with initial lease terms in excess of one year consist of payments totaling $2,667 per year through 2019. Rent expense for the years ended June 30, 2017 and 2016 was $19,951 and $14,793, respectively.

## NOTE 4 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2016 (the latest year reported), TRF and PERF were more than 80% funded.

Retirement plan expense was $66,483 and $56,222 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 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 received. Expense under this charter agreement was $25,872 and $21,644 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

## NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Sullivan 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 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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana. Cash deposits are maintained at First Financial Bank and are insured up to the FDIC insurance limit.

## NOTE 7 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

**RURAL COMMUNITY SCHOOLS, INC.**
**OTHER REPORT**
**For the Year Ended June 30, 2017**

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

Supplemental Audit Report of Rural Community Schools, 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.*

SUPPLEMENTAL AUDIT REPORT

OF

# RURAL COMMUNITY SCHOOLS, INC.

SULLIVAN COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# RURAL COMMUNITY SCHOOLS, INC.
## SULLIVAN COUNTY, INDIANA
### School Officials
### July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Meleah Sullivan | 07/01/16 – 06/30/17 |
| School Leader/Treasurer | Susie Pierce | 07/01/16 – 06/30/17 |

Donovan CPAs

The Board of Directors
Rural Community Schools, Inc.

We have audited the financial statements of Rural Community Schools, Inc. (the "School") as of and for the year ended June 30, 2017 and have issued our report thereon dated November 21, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 6, 2017

**www.cpadonovan.com**
**Westside Office** | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411
**Northside Office** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

## CASH RECEIPTS AND DEPOSITS

The School receives payments for various purposes, including meal purchases, textbook rental fees, fundraising, and field trips. In our sample of 25 cash receipts transactions from throughout the year, we noted 4 instances where the payment received was not deposited timely. The length of time for these 4 transactions between the receipt of payment and deposit in the bank ranged from 17 days to 31 days.

All charter school money must be deposited in the designated depository no later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

## CREDIT CARD USAGE

The School uses credit cards to purchase supplies and other materials for school purposes. In our sample of 5 credit card statements from throughout the year, we noted 3 instances in which the School failed to use state required accounts payable vouchers. Additionally, we noted 2 instances of the School paying interest.

Payment shall not be made on the basis of a statement or a credit card slip only. Procedures for payments shall be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee is the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The State Board of Accounts will not take exception to the use of credit cards by a charter school provided the following criteria are observed:

1. The charter school must authorize credit card use through an appropriate policy.

2. Issuance and use shall by handled by an employee designated by the charter school.

3. The purposes for which the credit card may be used must be specifically stated in the policy.

4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the designated employee.

5. The designated employee must maintain an accounting system or log which would include the names of individuals requesting the usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.

6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track expenses to provide the charter school and other administration with timely and accurate accounting information and monitoring of the accounting system.

7. Payment shall not be made on the basis of a statement or a credit card slip only. Procedures for payments shall be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee shall be the responsibility of that officer or employee.

8. If properly authorized, an annual fee may be paid. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

# RURAL COMMUNITY SCHOOLS, INC.
## SULLIVAN COUNTY, INDIANA
### Exit Conference
### July 1, 2016 to June 30, 2017

The contents of this report were discussed on November 21, 2017, with Meleah Sullivan (Board President), Tanna Jo Weszely (School Leader), Susie Pierce (Retired School Leader/Treasurer), and Leona Davis (CFO). The official response has been made a part of this report and may be found on page 6.

**Mailing Address**
P.O. Box 85
Graysville, IN 47852
Phone: 812-382-4500

# Rural Community Academy

*"A Public School Where Every Child Soars"*
www.rcsi.k12.in.us

**Physical Address**
2385 N. State Road 63
Sullivan, IN 47882
Fax: 812-382-4055

December 6, 2017

To: Donovan, Certified Public Accountants and Advisors

You have audited the financial statements of Rural Community Schools, Inc. dba Rural Community Academy, as of and for the year ended June 30, 2017 and have issued your report thereon dated November 21, 2017. As part of your audit, you tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where you found we were not in compliance. Below is our response to those compliance findings.

## CASH DEPOSITS AND RECEIPTS

Deposits and receipts were not taken to the bank in a timely matter. It is agreed that the finding is correct in that we have not made timely deposits. We are rectifying those findings by selecting an alternative way to get deposits to the bank by using night deposit more frequently to help meet SBOA requirements.

## CREDIT CARD USAGE

It is agreed that the findings are correct. We are rectifying the findings by making the credit card payments in a timely manner with proper supporting documentation to match the appropriate bill. Payments will be made prior to the due date to prevent interest fees. The state required accounts payable vouchers will be attached. A credit card policy is being created by administration and will be presented to the RCSI Board of Directors for approval at an upcoming meeting.

Sincerely,

Tanna Jo Weszely

Tanna Jo Weszely, School Leader

Meleah Sullivan

Meleah Sullivan, RCSI Board President

*"Come to the edge." "It's too high." "Come to the edge." "We might fall." "Come to the edge."*
*And they came. And he pushed them. And they flew.*
--Apollinaire

Veritas Academy

**CAROUSEL FAMILY SERVICES, INC.**
**d/b/a VERITAS ACADEMY**

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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*Independent Auditors' Report*

The Board of Directors
Carousel Family Services, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Carousel Family Services, Inc. d/b/a Veritas Academy (the "School"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets (deficiency), functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Carousel Family Services, Inc. d/b/a Veritas Academy as of June 30, 2017 and 2016, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis-of-Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School's charter to operate as a public charter school was not renewed by the School's sponsor. The inability to operate as a public charter school and obtain state financial support raises substantial doubt about the School's ability to continue as a going concern. Management's plans regarding this matter are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN

Donovan

Indianapolis, Indiana
December 8, 2017

# CAROUSEL FAMILY SERVICES, INC.
## d/b/a VERITAS ACADEMY
### STATEMENTS OF FINANCIAL POSITION
### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 319,770 | $ 106,725 |
| Grants receivable | 44,561 | 22,290 |
| Prepaid expenses | 6,431 | 7,606 |
| *Total current assets* | 370,762 | 136,621 |
| **PROPERTY AND EQUIPMENT** | | |
| Leasehold improvements | 29,230 | 11,205 |
| Furniture and equipment | 105,991 | 76,353 |
| Textbooks | 42,172 | 42,172 |
| Less: accumulated depreciation | (115,240) | (93,875) |
| *Property and equipment, net* | 62,153 | 35,855 |
| **TOTAL ASSETS** | $ 432,915 | $ 172,476 |
| **LIABILITIES AND NET ASSETS (DEFICIENCY)** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of note payable | $ - | $ 8,000 |
| Accounts payable and accrued expenses | 18,200 | 133,212 |
| Refundable advances | 5,007 | - |
| *Total current liabilities* | 23,207 | 141,212 |
| **NOTE PAYABLE, NET OF CURRENT PORTION** | 759,451 | - |
| *Total liabilities* | 782,658 | 141,212 |
| **UNRESTRICTED NET ASSETS (DEFICIENCY)** | (349,743) | 31,264 |
| **TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)** | $ 432,915 | $ 172,476 |

See independent auditors' report and accompanying notes to the financial statements.

# CAROUSEL FAMILY SERVICES, INC.
## d/b/a VERITAS ACADEMY
### STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
**For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 573,769 | $ 888,675 |
| Grant revenue | 171,948 | 203,409 |
| Student fees | 6,521 | 14,832 |
| Contributions | - | 6,860 |
| Other income | 8,434 | 12,009 |
| *Total revenue and support* | 760,672 | 1,125,785 |
| **EXPENSES** | | |
| Program services | 766,947 | 693,772 |
| Management and general | 374,732 | 257,409 |
| *Total expenses* | 1,141,679 | 951,181 |
| **CHANGE IN NET ASSETS** | (381,007) | 174,604 |
| **NET ASSETS (DEFICIENCY), BEGINNING OF YEAR** | 31,264 | (143,340) |
| **NET ASSETS (DEFICENCY), END OF YEAR** | $ (349,743) | $ 31,264 |

See independent auditors' report and accompanying notes to the financial statements.

# CAROUSEL FAMILY SERVICES, INC.
## d/b/a VERITAS ACADEMY
### STATEMENTS OF FUNCTIONAL EXPENSES
**For the Years Ended June 30, 2017 and 2016**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 453,809 | $ 219,904 | $ 673,713 | $ 418,377 | $ 125,110 | $ 543,487 |
| Employee benefits | 86,261 | 38,262 | 124,523 | 72,003 | 23,733 | 95,736 |
| Staff development | 33,845 | 631 | 34,476 | 10,484 | 740 | 11,224 |
| Professional services | 8,895 | 48,320 | 57,215 | 7,842 | 51,041 | 58,883 |
| Authorizer oversight fees | - | 12,593 | 12,593 | - | 18,299 | 18,299 |
| Food costs | 3,782 | - | 3,782 | 718 | - | 718 |
| Equipment | 53,884 | - | 53,884 | 19,062 | - | 19,062 |
| Classroom and office supplies | 15,145 | 3,805 | 18,950 | 19,321 | 2,902 | 22,223 |
| Occupancy | 87,315 | - | 87,315 | 123,213 | - | 123,213 |
| Depreciation | 21,365 | - | 21,365 | 21,830 | - | 21,830 |
| Insurance | - | 28,539 | 28,539 | - | 26,360 | 26,360 |
| Other | 2,646 | 22,678 | 25,324 | 922 | 9,224 | 10,146 |
| *Total functional expenses* | $ 766,947 | $ 374,732 | $ 1,141,679 | $ 693,772 | $ 257,409 | $ 951,181 |

See independent auditors' report and accompanying notes to the financial statements.

# CAROUSEL FAMILY SERVICES, INC.
## d/b/a VERITAS ACADEMY
### STATEMENTS OF CASH FLOWS
### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (381,007) | $ 174,604 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 21,365 | 21,830 |
| Changes in certain assets and liabilities: | | |
| Grants receivable | (22,271) | (13,645) |
| Prepaid expenses | 1,175 | (7,220) |
| Accounts payable and accrued expenses | (115,012) | (50,265) |
| Refundable advances | 5,007 | (11,347) |
| *Net cash provided by (used in) operating activities* | (490,743) | 113,957 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (47,663) | (13,123) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from note payable | 799,422 | - |
| Principal repayment of notes payable | (47,971) | (12,000) |
| *Net cash provided by (used in) financing activities* | 751,451 | (12,000) |
| **NET CHANGE IN CASH** | 213,045 | 88,834 |
| **CASH, BEGINNING OF YEAR** | 106,725 | 17,891 |
| **CASH, END OF YEAR** | $ 319,770 | $ 106,725 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 657 | $ - |

See independent auditors' report and accompanying notes to the financial statements.

# CAROUSEL FAMILY SERVICES, INC.
# d/b/a VERITAS ACADEMY
## OTHER REPORT
## For the Year Ended June 30, 2017

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Carousel Family Services, Inc. d/b/a Veritas Academy (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. Through June 30, 2017, the School operated a public charter school established under Indiana Code 20-24 and was sponsored by Ball State University.

Ball State University revoked the School's charter effective June 30, 2017. As such, the School ceased normal operations as a charter school as of that date (See Note 2).

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 is paid in monthly installments in July through June coinciding with 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.

Grants Receivable – Grants 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.

Taxes on Income – Carousel Family Services, Inc. has received a determination from the U.S. Internal Revenue Service 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 years ended June 30, 2017 and 2016, 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. Tax years ending after 2013 are open to audit for both federal and state purposes.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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 $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 | 15 years |
| Furniture and equipment | 3 to 5 years |
| Textbooks | 4 years |

Subsequent Events – The School evaluated subsequent events through December 8, 2017, 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.

**NOTE 2 – GOING CONCERN CONSIDERATIONS**

In 2017, the School received notification from its charter sponsor, Ball State University, that the sponsor would revoke the School's charter effective June 30, 2017. With the loss of the charter, funding from the State of Indiana also ceased as of June 30, 2017. Funding from the State of Indiana comprises substantially all of the School's revenue. The School is investigating other charter sponsors with the intention of reopening. The School did not reopen for the 2017/2018 school year. The loss of the School's charter, along with the absence of an identifiable alternative source of funding, raises substantial doubt about the School's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

**NOTE 3 – LEASES**

The School leases its school facility under an operating lease. The facility lease is renewable annually. Expense under the operating lease for the years ended June 30, 2017 and 2016 was $44,210 and $78,000, respectively.

## NOTE 4 – REFUNDABLE ADVANCES

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017 the School had refundable grant advances in excess of expenditures of $5,007. No such refundable advances existed as of June 30, 2016.

## NOTE 5 – NOTES PAYABLE

During 2017, the School obtained a $799,422 note payable from the State Board of Education. The note payable is the result of the Common School Funds Charter and Innovation School Advance Program. This note is secured by the School's future tuition support payments on the School's basic grant. The note is payable at a rate of $39,971, semi-annually (January 1 and July 1) plus interest at 1.00%. Due to the School's charter sponsor revoking its charter effective June 30, 2017, the School is no longer receiving basic grant payments and repayment of this note payable has ceased. As of the date of these financial statements, it is unclear when or if repayment on this loan will continue. If the School is unable to obtain a new charter sponsor and ceases all operations, upon liquidation the loan will be forgiven.

As of June 30, 2016, the School had a note payable due to DeLage Landen Financial Services, Inc. The note was non-interest bearing, was payable in monthly installments of $1,000 through February 2017, and was secured by the equipment financed through the note. The balance of the note at June 30, 2016 was $8,000, and it was repaid in full in 2017.

## NOTE 6 – RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2016 (the latest year reported), both TRF and PERF were more than 80% funded. Total retirement plan expense was $71,048 and $54,076 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 7 – 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 had agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $12,593 and $18,299 for the years ended June 30, 2017 and 2016, respectively. The charter was revoked effective June 30, 2017.

**NOTE 8 – RISKS AND UNCERTAINTIES**

The School provides educational instruction services to families residing in St. Joseph 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 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, 2017 and 2016, substantially all of the accounts receivable balance was due from the State of Indiana. All cash deposits are maintained at 1st Source Bank and are secured by FDIC insurance up to the legal limit.

**NOTE 9 – FUNCTIONAL EXPENSE REPORTING**

The costs of providing educational instruction have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and management and general activities.

Xavier School of Excellence

# INDIANA SCHOOLS OF EXCELLENCE, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

Donovan
CPAs

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*Independent Auditors' Report*

The Board of Directors
Indiana Schools of Excellence, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Indiana Schools of Excellence, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net deficiency, functional expenses, 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.

**Auditors' 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 auditors' 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 auditors consider 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.

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**Northside Office** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

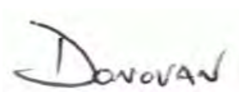
**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Schools of Excellence, Inc. as of June 30, 2017 and 2016, and the changes in its net deficiency, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School has incurred losses from operations, has a significant deficiency in net assets, and long-term debt matures during 2018, which raises substantial doubt about its ability to continue as a going concern. Management's intentions with respect to this matter are also described in Note 2. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN



Indianapolis, Indiana
December 21, 2017

# INDIANA SCHOOLS OF EXCELLENCE, INC.

## STATEMENTS OF FINANCIAL POSITION

**June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 33,075 | $ 71,548 |
| Grants receivable | 95,487 | 20,278 |
| Other receivable | - | 34,927 |
| Prepaid expenses | 980 | 5,380 |
| *Total current assets* | 129,542 | 132,133 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 150,000 | 150,000 |
| Buildings and improvements | 2,476,851 | 2,476,851 |
| Furniture and equipment | 809,547 | 809,547 |
| Less: accumulated depreciation | (1,787,584) | (1,568,822) |
| *Property and equipment, net* | 1,648,814 | 1,867,576 |
| **TOTAL ASSETS** | $ 1,778,356 | $ 1,999,709 |
| **LIABILITIES AND NET DEFICIENCY** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of notes payable | $ 1,829,759 | $ 112,264 |
| Trade payables | 39,096 | 71,443 |
| Other payable | 208,578 | 187,286 |
| Accrued payroll and related liabilities | 136,309 | 154,523 |
| *Total current liabilities* | 2,213,742 | 525,516 |
| **LONG-TERM LIABILITIES** | | |
| Notes payable, net of current portion | - | 1,832,495 |
| *Total liabilities* | 2,213,742 | 2,358,011 |
| **NET DEFICIENCY, UNRESTRICTED** | (435,386) | (358,302) |
| **TOTAL LIABILITIES AND NET DEFICIENCY** | $ 1,778,356 | $ 1,999,709 |

See independent auditors' report and accompanying notes to the financial statements

## INDIANA SCHOOLS OF EXCELLENCE, INC.

### STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIENCY

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| State education support | $ 1,519,128 | $ 1,698,795 |
| Grant revenue | 545,995 | 544,385 |
| Student fees | 8,861 | 13,229 |
| Other income | 3,919 | 1,562 |
| *Total revenue and support* | 2,077,903 | 2,257,971 |
| **EXPENSES** | | |
| Program services | 1,621,108 | 2,067,449 |
| Management and general | 533,879 | 486,771 |
| *Total expenses* | 2,154,987 | 2,554,220 |
| **CHANGE IN NET DEFICIENCY** | (77,084) | (296,249) |
| **NET DEFICIENCY, BEGINNING OF YEAR** | (358,302) | (62,053) |
| **NET DEFICIENCY, END OF YEAR** | $ (435,386) | $ (358,302) |

## INDIANA SCHOOLS OF EXCELLENCE, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES

### For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| **FUNCTIONAL EXPENSES** | | | | | | |
| Salaries and wages | $ 815,746 | $ 217,509 | $ 1,033,255 | $ 1,159,391 | $ 189,509 | $ 1,348,900 |
| Employee benefits | 253,950 | 60,096 | 314,046 | 308,322 | 76,573 | 384,895 |
| Staff development and recruitment | 8,370 | 1,916 | 10,286 | 7,582 | 1,110 | 8,692 |
| Depreciation | 218,762 | - | 218,762 | 259,338 | - | 259,338 |
| Food service expense | 74,304 | - | 74,304 | 87,055 | - | 87,055 |
| Insurance | - | 17,815 | 17,815 | - | 12,321 | 12,321 |
| Interest | - | 120,284 | 120,284 | - | 117,588 | 117,588 |
| Occupancy | 49,899 | - | 49,899 | 42,014 | - | 42,014 |
| Professional services | 99,172 | 61,339 | 160,511 | 121,667 | 70,078 | 191,745 |
| Repairs and maintenance | 14,397 | - | 14,397 | 3,986 | - | 3,986 |
| Classroom and office supplies | 23,050 | 14,796 | 37,846 | 27,949 | 14,215 | 42,164 |
| Information technology | 54,938 | - | 54,938 | 48,412 | - | 48,412 |
| Travel | 8,520 | - | 8,520 | 1,733 | 424 | 2,157 |
| Write off of other receivable | - | 34,927 | 34,927 | - | - | - |
| Other | - | 5,197 | 5,197 | - | 4,953 | 4,953 |
| *Total functional expenses* | $ 1,621,108 | $ 533,879 | $ 2,154,987 | $ 2,067,449 | $ 486,771 | $ 2,554,220 |

# INDIANA SCHOOLS OF EXCELLENCE, INC.

## STATEMENTS OF CASH FLOWS

### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net deficiency | $ (77,084) | $ (296,249) |
| Adjustments to reconcile change in net deficiency | | |
| to net cash provided by operating activities: | | |
| Depreciation | 218,762 | 259,338 |
| Change in certain assets and liabilities: | | |
| Grants receivable | (75,209) | 48,944 |
| Other receivable | 34,927 | - |
| Prepaid expenses | 4,400 | 1,474 |
| Trade payables | (32,347) | 41,034 |
| Other payable | 21,292 | 7,165 |
| Accrued payroll and related liabilities | (18,214) | (13,455) |
| *Net cash provided by operating activities* | 76,527 | 48,251 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | - | (5,160) |
| **FINANCING ACTIVITIES** | | |
| Principal payments on notes payable | (115,000) | (110,502) |
| **NET CHANGE IN CASH** | (38,473) | (67,411) |
| **CASH, BEGINNING OF YEAR** | 71,548 | 138,959 |
| **CASH, END OF YEAR** | $ 33,075 | $ 71,548 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 120,284 | $ 117,588 |

# INDIANA SCHOOLS OF EXCELLENCE, INC.
## NOTES TO THE FINANCIAL STATEMENTS
## For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indiana Schools of Excellence, 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 (Xavier School of Excellence) established under Indiana Code 20-24 and is sponsored by Ball State University. During the 2016-2017 school year, the School served approximately 205 students from Kindergarten through eighth grade.

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.

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.

Revenue Recognition – Revenues primarily 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 is paid in monthly installments in July through June coinciding with 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.

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 $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:

| | |
|---|---|
| Buildings and improvements | 10 to 15 years |
| Furniture and equipment | 5 to 7 years |

Taxes on Income – Indiana Schools of Excellence, 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 years ended June 30, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued - 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 after 2013 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 21, 2017, 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.

### NOTE 2 - GOING CONCERN CONSIDERATION

As reflected in the accompanying financial statements, the School incurred significant losses for the years ended June 30, 2017 and 2016, and had a deficiency in net assets of $436,366 as of June 30, 2017. At June 30, 2017, current assets do not cover the amount of accounts payable and accrued expenses due. In addition, $1,829,759 of notes payable mature during the year ending June 30, 2018. Finally, the School's current charter with Ball State University expires on June 30, 2018. These factors raise substantial doubt about the School's ability to continue as a going concern.

### NOTE 3 - OTHER RECEIVABLE

Other receivable consists of a balance the School believes is owed from its prior management company. During 2016 and 2017, management has worked through an attorney to collect this balance, without success. Management believes the School will ultimately be successful in collecting the balance, but has established a reserve against it. As such, the reported balance as of June 30, 2017 is zero.

## NOTE 4 - NOTES PAYABLE

Notes payable consists of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to United Bank, payable $6,774 monthly, including interest at 3.0% per annum, maturing April 2018, secured by all business assets | $ 287,523 | $ 361,430 |
| Note payable to Charter School Development Corporation, payable $3,835 monthly, including interest at 7.5% per annum, maturing April 2018, secured by real estate | 42,236 | 83,329 |
| Note payable to IFF, interest only payable monthly at 6.5% per annum, maturing in May 2018, secured by real estate | 1,500,000 | 1,500,000 |
| | 1,829,759 | 1,944,759 |
| Less: current portion | (1,829,759) | (112,264) |
| Long-term portion | $ - | $ 1,832,495 |

## NOTE 5 - OTHER PAYABLE

The School contracted with Food Service Professionals ("FSP") to provide food service on-site to its students and employees. The School terminated its contract with FSP as of June 30, 2017. The School has a payable to FSP totaling $208,578 and $187,286 as of June 30, 2017 and 2016, respectively.

## NOTE 6 - RETIREMENT PLAN

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2016 (the latest year reported), both TRF and PERF were more than 80% funded.

**NOTE 6 - RETIREMENT PLAN, Continued**

Retirement plan expense was $70,917 and $83,782 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 7 - 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 payments received. Payments under this agreement for the years ended June 30, 2017 and 2016 were $31,215 and $35,539, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

**NOTE 8 - RISKS AND UNCERTAINTIES**

The School provides education services to families residing in St. Joseph 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 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, 2017, the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at Notre Dame Federal Credit Union and occasionally exceed the FDIC insurance limit.

**NOTE 9 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in deficiency. Accordingly, certain expenses have been allocated between program and management services.

# INDIANA SCHOOLS OF EXCELLENCE, INC.
## OTHER REPORT
## For the Year Ended June, 30 2017

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

Supplemental Audit Report of Indiana Schools of Excellence, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

# INDIANA SCHOOLS OF EXCELLENCE, INC.

ST. JOSEPH COUNTY, INDIANA

July 1, 2016 to June 30, 2017

Donovan CPAs

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# INDIANA SCHOOLS OF EXCELLENCE, INC.

## ST. JOSEPH COUNTY, INDIANA

### School Officials

### July 1, 2016 to June 30, 2017

| Office | Official | Term |
|---|---|---|
| President of Board of Directors | Albert Smith | 07/01/16 – 06/30/17 |
| School Leader | Samantha Smith | 07/01/16 – 06/30/17 |
| Business Manager | Bob Edmondson | 07/01/16 – 06/30/17 |

The Board of Directors
Indiana Schools of Excellence, Inc.

We have audited the financial statements of Indiana Schools of Excellence, Inc. (the "School") as of and for the year ended June 30, 2017, and have issued our report thereon dated December 21, 2017. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 21, 2017

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**Northside Office** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

## CAPITAL ASSETS

The School did not conduct a formal capital assets inventory in 2017.

Every charter school must have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory must be recorded on the applicable Capital Assets Ledger. A complete inventory shall be taken for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 15)

## REQUIRED REPORTS

The School submits a Form 9 Biannual Financial Report two times per year. Upon review of the submitted Form 9s it was determined that the ending cash balance reported on the Form 9 did not tie to the ending cash balance as reported in the financial statements. In addition, the fund activity reported on the Form 9 does not accurately reflect fund activity during the year.

Charter schools are required to submit a Form 9 Biannual Financial Report two times per year during the months of January and July. The financial information in the Form 9 shall reflect cash basis information. The January report must include previous calendar year financial and other required information for the period of July 1 to December 31 financial data. The July report must include current calendar year financial and other required information for the period of January 1 to June 30. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 9)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

## PAYROLL COMPLIANCE

During our testing of payroll, three out of the 15 employee contracts did not match the payroll register for the pay period ended November 5, 2016.

The charter school shall maintain adequate supporting documentation for payroll to ensure that payments are made only for services rendered. Supporting documentation, such as time cards, must show signs of supervisory approval. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

All compensation and benefits paid to employees must be included in the labor contract or salary schedule unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

**VENDOR DISBURSEMENTS**

The School pays all bills based on statements or invoices received from the vendors. However, the School did not use the Accounts Payable Voucher (Form 523) during the audit period, as such a full account coding was not evident on every invoice selected for testing.

The Accounts Payable Voucher (Form 523) is designed to replace Claim Form 505. The form must be used in accordance with the following conditions: Charter schools may not draw a warrant or check for payment of a claim unless: (1) there is a fully itemized invoice or bill for the claim; (2) the invoice or bill is approved by the officer or person receiving the goods and services; (3) the invoice or bill is filed with the fiscal officer; (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and (5) payment of the claim is allowed by the board having jurisdiction over the allowance of the payment of the claim. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 2)

**MINIMUM INTERNAL CONTROL STANDARDS**

Per review and discussion with school personnel, it was determined that the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

The School's certification on the Gateway platform on the adoption of and training on internal control standards was made incorrectly. The school personnel did not understand the requirements set forth by IC 5-11-1-27(g) prior to the certification and have since realized that they should have answered that the School was not in compliance.

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

# INDIANA SCHOOLS OF EXCELLENCE, INC.
## ST. JOSEPH COUNTY, INDIANA
## Exit Conference
## July 1, 2016 to June 30, 2017

The contents of this report were discussed on December 21, 2017 with Janet Krouse (Board Representative), Samantha Smith (School Leader), Robert Doctor (Business Manager), and Jim Shafer (Accountant). The Official Response has been made a part of this report and may be found on page 6.

December 21, 2017

Donovan, P.C.
9292 N. Meridian Street, Suite 150
Indianapolis, IN 46260

RE: Management Response to Audit Findings

**Capital Asset Inventory**

Xavier has addressed this finding, and has implemented a process to ensure that all Xavier assets are documented, by: nomenclature, location, quantity, fund code, and acquisition cost. Furthermore, Xavier has initiated a one-hundred percent (100%), physical inventory of capital assets and will be available for review when completed on January 12, 2018.

**Required Reports**

Form 9 for the six months ending June 30, 2017, the upload file had a clerical error that did not include the Adjustment to fund 3720 for $20,474.30 which reduced the Cash balance. With uploading to the Website, the website does not provide a final report of balances until after the State reviews and finalizes the information, which is days or weeks after submission. Specifically, this discrepancy has been addressed for this instance, corrected and also for future submissions.

**Payroll Compliance**

Xavier has addressed this finding, and has implemented a process to ensure that all contracts are available and archived on both electronic and paper media. All 2016 employment contracts have been provided to ensure compliance for this audit.

**Vendor Disbursements**

This finding, while accurate and reasonable, is deemed to be too administratively/financially burdensome and Xavier is willing to accept the finding without prejudice.

**Internal Controls**

Xavier has addressed this finding, and has implemented a process to ensure that all employees are provided annual training and certification under the guidelines of Indiana Code §5-11-1-27 (g) (2). Training and certification of Xavier School Board members and all Xavier employees will be completed by December 22, 217. Additionally, a written board policy will be developed to document the annual recertification process.

B. Doct

Robert Doctor, Business Manager

Janet Krouse

Board Member JANET KROUSE