



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

December 22, 2023

Charter School Board
Ace Preparatory, Inc.
Marion County, Indiana

We have reviewed the audit report of Ace Preparatory, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2022 to June 30, 2023. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Ace Preparatory, Inc. as of June 30, 2023 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for Ace Preparatory, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

ACE PREPARATORY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2023 and 2022



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
ACE Preparatory, Inc.

Opinion

We have audited the accompanying financial statements of ACE Preparatory, Inc. (the "School") which comprise the statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position the School as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and slightly slanted to the right.

Indianapolis, Indiana
October 30, 2023

ACE PREPARATORY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 402,696	\$ 379,895
Grants receivable	77,866	244,058
Prepaid expenses	13,664	16,752
<i>Total current assets</i>	<u>494,226</u>	<u>640,705</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	138,670	133,670
Furniture and equipment	316,850	308,850
Less: accumulated depreciation	(395,128)	(335,239)
Operating lease right-of-use asset	3,257,438	3,310,405
<i>Property and equipment, net</i>	<u>3,317,830</u>	<u>3,417,686</u>
TOTAL ASSETS	<u><u>\$ 3,812,056</u></u>	<u><u>\$ 4,058,391</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of operating lease liability	\$ 63,224	\$ 52,967
Accounts payable and accrued expenses	63,316	83,351
Construction costs payable	-	155,800
<i>Total current liabilities</i>	126,540	292,118
LONG TERM LIABILITY		
Operating lease liability, net of current portion	3,245,721	3,294,034
<i>Total liabilities</i>	3,372,261	3,586,152
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>439,795</u>	<u>472,239</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,812,056</u></u>	<u><u>\$ 4,058,391</u></u>

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

ACE PREPARATORY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
REVENUE AND SUPPORT		
State education support	\$ 1,292,017	\$ 1,127,955
Grant revenue	994,606	1,302,994
Contributions	10,332	34,158
Interest income	6,828	85
Other income	24,357	88,326
	<u>2,328,140</u>	<u>2,553,518</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	1,899,255	1,769,259
Management and general	461,329	404,249
	<u>2,360,584</u>	<u>2,173,508</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	(32,444)	380,010
NET ASSETS, BEGINNING OF YEAR	<u>472,239</u>	<u>92,229</u>
NET ASSETS, END OF YEAR	<u>\$ 439,795</u>	<u>\$ 472,239</u>

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

ACE PREPARATORY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>			<u>2022</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 1,097,282	\$ 139,475	\$ 1,236,757	\$ 1,039,439	\$ 93,582	\$ 1,133,021
Occupancy	340,434	-	340,434	309,757	-	309,757
Employee benefits	79,511	109,091	188,602	80,416	68,129	148,545
Professional services	49,028	138,635	187,663	59,734	140,892	200,626
Food costs	135,895	-	135,895	105,814	-	105,814
Depreciation	59,889	-	59,889	53,336	-	53,336
Classroom and office supplies	31,087	15,370	46,457	33,427	13,234	46,661
Repairs and maintenance	39,709	-	39,709	18,541	-	18,541
Textbooks and equipment	31,785	-	31,785	37,477	-	37,477
Information technology	29,106	-	29,106	24,853	-	24,853
Insurance	-	20,143	20,143	-	39,454	39,454
Community relations	-	13,552	13,552	-	8,172	8,172
Authorizer fees	-	7,866	7,866	-	5,398	5,398
Field trips	5,529	-	5,529	6,465	-	6,465
Interest	-	-	-	-	13,777	13,777
Other	-	17,197	17,197	-	21,611	21,611
<i>Total functional expenses</i>	<u>\$ 1,899,255</u>	<u>\$ 461,329</u>	<u>\$ 2,360,584</u>	<u>\$ 1,769,259</u>	<u>\$ 404,249</u>	<u>\$ 2,173,508</u>

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

ACE PREPARATORY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (32,444)	\$ 380,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,889	53,336
Non-cash expense of operating lease right-of-use asset	14,911	36,596
Change in certain assets and liabilities:		
Grants receivable	166,192	(133,904)
Prepaid expenses	3,088	(5,673)
Accounts payable and accrued expenses	(20,035)	7,321
Due to landlord	-	(66,943)
	191,601	270,743
<i>Net cash provided by operating activities</i>		
INVESTING ACTIVITIES		
Purchases of property and equipment	(13,000)	(30,757)
FINANCING ACTIVITIES		
Proceeds from (repayments to) landlord for construction costs	(155,800)	155,800
Repayments on receivables factoring, net	-	(154,000)
	(155,800)	1,800
<i>Net cash provided by (used in) financing activities</i>		
NET CHANGE IN CASH	22,801	241,786
CASH, BEGINNING OF YEAR	379,895	138,109
CASH, END OF YEAR	\$ 402,696	\$ 379,895
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ -	\$ 13,777

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

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – ACE Preparatory, 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 under Indiana Code 20-24 and is sponsored by the Indiana Charter School Board ("ICSB"). During the 2022-2023 and 2020-2021 school years, the School served approximately 150 students in kindergarten through fifth grade.

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

- net assets without donor restrictions, which include unrestricted resources available for the operating objectives of the School; and
- net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

As of June 30, 2023 and 2022, the School had only net assets without donor restrictions.

Basis of Accounting and Use of Estimates – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2023 and 2022.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The School believes 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 over \$1,000 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:

Leasehold improvements	5 years
Furniture and equipment	3 to 5 years

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – The School received a determination from the U.S. Treasury Department stating 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, 2023 and 2022, 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 there are no material contingent tax liabilities or questionable tax positions. Tax years ended after June 30, 2019 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through October 30, 2023, 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 - REVENUE RECOGNITION

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 significant 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. Incurring approved costs under the grant is considered satisfaction of the performance obligations.

The School also receives contributions and grants from other agencies and individuals, which are recorded in accordance with the terms of the underlying agreements.

Disaggregation of Revenue – Revenue is disaggregated on the statements of activities and change in net assets.

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 3 - LEASE

The School leases its facility from an unrelated party. Prior to December 2021, monthly lease payments totaled \$20,000. During December 2021, the School and landlord entered into a long-term lease through June 30, 2042. The School determined the lease falls under ASU 2016-02 and as such recorded an asset and liability presented on the statements of financial position as an operating lease right-of-use asset and operating lease liability. The lease requires payments over the life of the lease increasing from payments of \$17,708 to \$27,700 per month. Rent expense is reported on a straight-line basis of \$22,936 per month. Rent expense under this lease totaled \$277,065 and \$260,554 for the years ended June 30, 2023 and 2022, respectively.

Future minimum payments under the non-cancellable operating lease are as follows for the years ending June 30:

2024	\$	232,733
2025		237,388
2026		242,135
2027		246,978
2028		251,918
Thereafter		4,104,596
<i>Total payments</i>		5,315,748
Less: imputed interest at 5.25%		(2,058,310)
Add: straight-lining rent liability		51,507
Total operating lease liability		3,308,945
Less: current portion		(63,224)
Long-term portion	\$	3,245,721

NOTE 4 - RETIREMENT PLAN

The School has established a retirement plan that allows employees to make salary deferral contributions and provides that the School will make contributions at its discretion. For the years ended June 30, 2023 and 2022, the School contributed a 3% match of defined compensation to each contributing employee's retirement account. Retirement plan expense was \$12,181 and \$17,348 for the years ended June 30, 2023 and 2022, respectively.

NOTE 5 - COMMITMENTS

The School operates under a charter granted by ICSB. As the sponsoring organization, ICSB exercises certain oversight responsibilities. The charter agreement remains in effect until June 30, 2026 and is renewable thereafter by mutual consent. ICSB assesses a fee in an amount equal to no more than 3% of the total amount received by the School. The fees were \$7,866 and \$5,398 for the years ended June 30, 2023 and 2022, respectively. In addition, the charter agreement requires the School to establish an escrow account of \$30,000 should a dissolution occur, which has been established and is included in cash on the statements of financial position.

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Marion 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.

Cash deposits maintained at The National Bank of Indianapolis are insured up to the FDIC insurance limit of \$250,000. As of and throughout the years ended June 30, 2023 and 2022, cash balances exceeded the FDIC insurance limit.

NOTE 7 - LIQUIDITY

The School's financial assets include cash and grants receivable. Following is a schedule of financial assets and the ability thereof to meet cash needs for general expenditures as of June 30:

	<u>2023</u>	<u>2022</u>
Financial assets	\$ 480,562	\$ 623,953
Less: cash to be used for Cafeteria remodel	-	(155,800)
Less: cash escrow held for dissolution (Note 5)	<u>(30,000)</u>	<u>(30,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>450,562</u>	\$ <u>438,153</u>

From time to time, the School receives donor-restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

ACE PREPARATORY, INC.
OTHER REPORT
For the Year Ended June 30, 2023

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

Supplemental Audit Report of ACE Preparatory, 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*.