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December 29, 2023

Charter School Board
Victory College Prep, Inc.
Marion County, Indiana

We have reviewed the audit report of Victory College Prep, 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 Victory College Prep, 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.

We call your attention to the finding in the report on page 22. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's Corrective Action Plan can be found on page 23.

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

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

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

A handwritten signature in black ink that reads 'Tammy R. White'.

Tammy R. White, CPA
Deputy State Examiner

VICTORY COLLEGE PREP., 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
Victory College Prep., Inc.

Opinion

We audited the financial statements of Victory College Prep., 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 accompanying financial statements present fairly, in all material respects, the financial position of 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”) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 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 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, which 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.

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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 including our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with GAAS and *Government Auditing Standards* 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, 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 and *Government Auditing Standards*, 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 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, which 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 audits, significant audit findings, and certain internal control-related matters we identified during the audits.

Supplementary Information

Our audits were 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes 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 additional 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 GAAS. In our opinion, the schedule of expenditures of federal awards 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 November 15, 2023 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 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 School's 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.

DONOVAN

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

Indianapolis, Indiana
November 15, 2023

VICTORY COLLEGE PREP., INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 7,222,661	\$ 5,379,977
Grants receivable	504,047	1,027,699
Prepaid expenses	-	95,430
<i>Total current assets</i>	<u>7,726,708</u>	<u>6,503,106</u>
PROPERTY AND EQUIPMENT, NET	<u>10,352,497</u>	<u>8,484,911</u>
OTHER ASSETS		
Cash - restricted for debt service	962,792	959,875
Cash - restricted for property repairs and replacement	139,234	87,957
<i>Total other assets</i>	<u>1,102,026</u>	<u>1,047,832</u>
TOTAL ASSETS	<u>\$ 19,181,231</u>	<u>\$ 16,035,849</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 180,000	\$ 175,000
Accounts payable and accrued expenses	1,009,782	992,088
<i>Total current liabilities</i>	<u>1,189,782</u>	<u>1,167,088</u>
LONG-TERM LIABILITIES		
CSFP debt service reserve fund liability	809,875	809,875
Bonds payable, net of current portion	13,330,000	13,510,000
Less: unamortized bond issuance costs	(713,869)	(735,834)
<i>Total long-term liabilities, net of unamortized bond issuance costs</i>	<u>13,426,006</u>	<u>13,584,041</u>
TOTAL LIABILITIES	<u>14,615,788</u>	<u>14,751,129</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Board-designated	1,000,000	1,000,000
Undesignated	3,565,443	284,720
<i>Total net assets</i>	<u>4,565,443</u>	<u>1,284,720</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,181,231</u>	<u>\$ 16,035,849</u>

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

VICTORY COLLEGE PREP., 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	\$ 7,963,696	\$ 7,778,931
Grant revenue	9,774,795	7,898,330
Student fees	112,889	116,880
Interest	58,514	4,325
Contributions	27,648	10,107
Rent	-	80,000
Other	60,100	43,265
	<u>17,997,642</u>	<u>15,931,838</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	12,841,627	11,603,345
Management and general	1,875,292	1,422,117
	<u>14,716,919</u>	<u>13,025,462</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	3,280,723	2,906,376
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>1,284,720</u>	<u>(1,621,656)</u>
NET ASSETS, END OF YEAR	<u>\$ 4,565,443</u>	<u>\$ 1,284,720</u>

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

VICTORY COLLEGE PREP., 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	\$ 6,574,722	\$ 1,080,573	\$ 7,655,295	\$ 6,128,542	\$ 761,838	\$ 6,890,380
Employee benefits	1,244,170	393,932	1,638,102	1,037,581	275,753	1,313,334
Transportation service	1,084,528	-	1,084,528	1,057,425	-	1,057,425
Occupancy	799,175	-	799,175	674,286	-	674,286
Depreciation	689,680	-	689,680	564,885	-	564,885
Interest	633,196	-	633,196	620,507	-	620,507
Food service	608,900	-	608,900	440,832	-	440,832
Other professional services	350,242	154,999	505,241	239,121	153,985	393,106
Classroom, kitchen, and office supplies	309,835	77,786	387,621	562,028	38,001	600,029
Staff development and recruitment	289,228	66,279	355,507	107,740	70,417	178,157
Extra-curricular programs	92,621	-	92,621	28,374	-	28,374
Authorizer fees	-	57,175	57,175	-	55,724	55,724
Culture events	53,545	-	53,545	-	-	-
Field trips	40,856	-	40,856	37,057	-	37,057
Property and textbook rental	-	-	-	42,967	-	42,967
Other	70,929	44,548	115,477	62,000	66,399	128,399
<i>Total functional expenses</i>	<u>\$ 12,841,627</u>	<u>\$ 1,875,292</u>	<u>\$ 14,716,919</u>	<u>\$ 11,603,345</u>	<u>\$ 1,422,117</u>	<u>\$ 13,025,462</u>

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

VICTORY COLLEGE PREP., 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	\$ 3,280,723	\$ 2,906,376
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	689,680	564,885
Amortization of bond issuance costs	21,965	21,965
Changes in certain assets and liabilities:		
Grants receivable	523,652	236,873
Prepaid expenses	95,430	(62,523)
Accounts payable and accrued expenses	<u>(232,708)</u>	<u>140,705</u>
<i>Net cash provided by operating activities</i>	4,378,742	3,808,281
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,306,864)	(774,232)
FINANCING ACTIVITIES		
Principal repayment of Series 2021 bonds payable	<u>(175,000)</u>	<u>(150,000)</u>
NET CHANGE IN CASH	1,896,878	2,884,049
CASH, BEGINNING OF YEAR	<u>6,427,809</u>	<u>3,543,760</u>
CASH, END OF YEAR	<u>\$ 8,324,687</u>	<u>\$ 6,427,809</u>
CASH, END OF YEAR		
Cash - unrestricted	\$ 7,222,661	\$ 5,379,977
Cash - restricted for debt service	962,792	959,875
Cash - restricted for property repairs and replacement	<u>139,234</u>	<u>87,957</u>
<i>Total cash, end of year</i>	<u>\$ 8,324,687</u>	<u>\$ 6,427,809</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 611,231	\$ 598,542
Purchases of property and equipment financed through accounts payable	250,402	-

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

VICTORY COLLEGE PREP., INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Victory College Prep., 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 Office of Education Innovation (“OEI”) of the Mayor of the City of Indianapolis. The charter is effective through June 30, 2026 and is renewable thereafter by mutual consent. The School served approximately 920 students in grades kindergarten through twelve during the 2022-2023 school year (approximately 950 students during the 2021-2022 school year).

Construction in Progress – The School is in the process of constructing a new daycare center and parking lot. Costs incurred during the construction are capitalized and included in the account at cost (Note 4). No depreciation expense is recorded on the construction in progress until the underlying assets are placed into service.

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.

Board-Designated Net Assets – The Board of Directors designated a portion of the School’s net assets for the purpose of having funds to cover bonds payable when they come due. While the intention is to continue to add to this amount each year until the bonds mature (Note 5), no additional funds were added during the year ended June 30, 2023.

Basis of Accounting and Use of Estimates – The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions affecting 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 consist 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.

Bond Issuance Costs – The School incurred costs associated with securing financing under Indiana Finance Authority Educational Facilities Refunding Revenue Bonds (“Series 2021 Bonds”). Total bond issuance costs incurred with the 2021 transaction were \$768,782. Amortization is provided on a straight-line basis over the 35-year term of the Series 2021 Bonds. Amortization expense was \$21,965 during both years ended June 30, 2023 and 2022 and is included in interest expense.

VICTORY COLLEGE PREP., INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Bond Issuance Costs, Continued – As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, bond issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

Property and Equipment – Purchases of assets and expenditures which 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 with a unit cost of less than \$5,000 and a useful life of five years or less 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 - 30 years
Furniture and equipment	3 - 10 years
Vehicle	5 years

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 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 examined this issue and 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 November 15, 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 Policy – 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 the educational services are rendered.

VICTORY COLLEGE PREP., INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 2 - REVENUE RECOGNITION, Continued

Revenue Recognition Policy, Continued – 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 and these are recorded in accordance with the terms of the underlying agreements. Student fees are recognized in the year in which the services are rendered. Rent is recognized monthly as the performance obligation of providing facilities for use by the lessee is satisfied.

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

NOTE 3 - RESTRICTED CASH

Cash - restricted for debt service is reserved for the payment of principal and interest on the bonds in the event other funding is unavailable to meet payment requirements. Included in *cash - restricted for debt service* is \$809,875 provided by Charter School Financing Partnership, LLC as a credit enhancement. Upon full repayment or other termination of the bond debt, the School is obligated to repay the amount of the credit enhancement and has therefore recorded a long-term liability to reflect the obligation, which is reflected as CSFP debt service reserve fund liability on the statements of financial position.

Cash - restricted for property repairs and replacement was established with the bond proceeds and represents resources available for repairing and replacing facilities. Beginning July 2022, the School began funding this account at a rate of \$4,000 per month out of its debt service payments.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment was comprised of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 130,000	\$ 130,000
Buildings and improvements	10,979,878	9,469,955
Construction in progress	849,984	-
Furniture and equipment	1,875,909	1,678,550
Vehicle	36,668	36,668
	<u>13,872,439</u>	<u>11,315,173</u>
Less: accumulated depreciation	<u>(3,519,942)</u>	<u>(2,830,262)</u>
	<u>\$ 10,352,497</u>	<u>\$ 8,484,911</u>

VICTORY COLLEGE PREP., INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 5 - BONDS PAYABLE

In January 2021, the School entered into a transaction to restructure its financial position. This included retiring Series 2016 Bonds through the establishment of Series 2021 Bonds. The Series 2021 Bonds have original amounts totaling \$13,835,000 with principal payments increasing from \$150,000 to \$775,000 and maturing in December 2055. Interest payments are made semi-annually at 4.5% in accordance with the bond agreements. The bonds are secured by land, building, and improvements.

The bond agreement contains certain covenants requiring:

- submission of audited financial statements within 150 days after the end of the fiscal year;
- a minimum 45 days' cash on hand as of each June 30;
- a minimum debt service coverage ratio of 1.15 to 1.00, measured annually, and;
- enrollment of at least 890 students, tested annually each October.

The School met all the covenants as of June 30, 2023. In lieu of submitting audited financial statements within 150 days after the end of the fiscal year, the School was able to submit unaudited financial statements to satisfy this requirement, with audited financial statements to be submitted when available.

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

2024	\$	180,000
2025		190,000
2026		200,000
2027		205,000
2028		215,000
Thereafter		<u>12,520,000</u>
	\$	<u>13,510,000</u>

NOTE 6 - RENT INCOME

The School sold equipment to an unrelated party under a lease-to-own equipment agreement. Rent income totaled \$80,000 during the year ended June 30, 2022, the final year of the agreement.

NOTE 7 - RETIREMENT PLAN

The School offers a Section 401(k) plan to its employees. Under the plan, the School matches 100% of employee contributions up to 4% of compensation for the plan year. Additional contributions are allowed at the discretion of the School's Board of Directors. No discretionary contributions were made during the years ended June 30, 2023 or 2022. Retirement plan expense was \$185,257 and \$243,366 for the years ended June 30, 2023 and 2022, respectively.

VICTORY COLLEGE PREP., INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 8 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Marion 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 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 potentially subjecting the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2023 and 2022, 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 of \$250,000. Funds held at these financial institutions exceeded the FDIC insurance limit as of and during the years ended June 30, 2023 and 2022.

NOTE 9 - COMMITMENTS

As the sponsoring organization, OEI exercises certain oversight responsibilities. OEI assesses a fee equal to 1% of the basic tuition support received by the School. The authorizer fees totaled \$57,175 and \$55,724 for the years ended June 30, 2023 and 2022, respectively.

In April 2022, the School entered into an agreement with a contractor for construction of a new daycare facility and renovations to its existing structures. The contract sum stated in the agreement totaled approximately \$2,980,000, including all change orders. As of June 30, 2023, the School's remaining commitment on the contract totaled approximately \$512,000.

NOTE 10 - LIQUIDITY

The School's financial assets include cash (excluding restricted cash which is not available for general operating activities) and grants receivable totaling \$7,726,708 and \$6,407,676 as of June 30, 2023 and 2022, respectively, all of which is available to meet cash needs for general expenditures within a year.

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.

VICTORY COLLEGE PREP., INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 11 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities are summarized on a functional basis in the statements of activities and change in net assets. Management of the School 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.

SUPPLEMENTARY INFORMATION

VICTORY COLLEGE PREP., INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

<u>Federal Grantor Agency/ Pass-Through Entity/ Cluster Title/Program Title/ Project Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 212,205
National School Lunch Program	10.555		536,700
Summer Food Service Program for Children	10.559		<u>18,255</u>
<i>Total U.S. Department of Agriculture</i>			<u>767,160</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A; Grants to Local Education Agencies	84.010	S010A220014	894,824
Title II, Part A; Supporting Effective Instruction State Grants	84.367	S367A220013	78,900
Title IV, Part A; Student Support and Academic Enrichment	84.424	S424A220015	67,682
Special Education Cluster			
Special Education Grants to States	84.027	23611-516-PN01	213,780
Keys to Quality: Charter School Facilities Incentive Grant	84.282D		147,207
Education Stabilization Fund			
Elementary and Secondary School Emergency Relief	84.425D	S425D210013	92,902
Elementary and Secondary School Emergency Relief	84.425D	S425U210013	4,058,357
ARP - Elementary and Secondary School Emergency Relief	84.425U		340,000
ARP - Homeless Children and Youth Grant	84.425W	S425W210015	<u>19,074</u>
<i>Total U.S. Department of Education</i>			<u>5,912,726</u>
<u>FEDERAL COMMUNICATIONS COMMISSION</u>			
Pass-through Indiana Department of Education			
Emergency Connectivity Fund Program	32.009		<u>121,000</u>
<i>Total federal awards expended</i>			<u>\$ 6,800,886</u>

See independent auditors' report and accompanying notes to this schedule

VICTORY COLLEGE PREP., INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Victory College Prep., Inc. (the “School”) under programs of the federal government for the year ended June 30, 2023. 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, change in net assets, functional expenses, or cash flows of the School.

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.

NOTE 3 - INDIRECT COST RATE

The School elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



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
Victory College Prep, Inc.

We 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 Victory College Prep, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2023, 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 November 15, 2023.

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 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 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 which 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 which might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

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

Indianapolis, Indiana
November 15, 2023



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
Victory College Prep, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We audited Victory College Prep., Inc.'s (the "School") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* which could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2023. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above which could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding No. 2023-001. Our opinion on the major federal programs is not modified with respect to these matters.

The School's response to the noncompliance finding identified in our audit is described in the Corrective Action Plan on page 23. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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We are required to be independent of the School and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the School's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures appropriate in the circumstances 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 the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 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 which is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2023-001 to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance which might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist which were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

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

Indianapolis, Indiana
November 15, 2023

VICTORY COLLEGE PREP., INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023

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?	Yes
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)?	Yes

Identification of major programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.425D, 84.425U, and 84.425W	Education Stabilization Fund
10.553, 10.555, and 10.559	Child Nutrition Cluster

Dollar threshold use to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

No matters are reportable.

VICTORY COLLEGE PREP., INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023

III. Federal Award Findings and Questioned Costs

FINDING 2023-001 DAVIS-BACON COMPLIANCE
SIGNIFICANT DEFICIENCY

Federal Program: Education Stabilization Fund

Assistance Listing Numbers: 84.425D, 84.425U, and 84.425W

Condition

The School entered into an agreement with a contractor for building renovations, paid with funds from the Education Stabilization Fund. A formal contract that required compliance with the provisions of the Davis-Bacon Act was put into place. However, the School did not obtain certified payrolls from the contractor for each week that work was performed under the contract.

Criteria

The 2023 Compliance Supplement states: Nonfederal entities shall include in their construction contracts subject to the Wage Rate Requirements (which still may be referenced as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with those requirements and the DOL regulations (29 CFR Part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6; the A-102 Common Rule (section 36(i)(5)); OMB Circular A-110 (2 CFR Part 215, Appendix A, Contract Provisions); 2 CFR Part 176, Subpart C; and 2 CFR section 200.326).

Cause

The School was not aware of the requirement outlined in the Criteria section above.

Effect

The School is unable to document that the contractor is compliant with the Davis-Bacon Act.

Recommendation

We recommend the School develop internal controls to ensure that certified payrolls are obtained for each week that work is performed under qualifying construction or sub-construction contracts.

Views of Responsible Officials and Planned Corrective Actions

The School's Corrective Action Plan is included on page 23.



VICTORY COLLEGE PREP

1780 Sloan Avenue
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To Whom It May Concern,

This letter is in response to our Single Audit/Uniform Guidance Finding. We understand that we are to verify two items when ESSER funds are used for construction contracts over \$2,000:

1. Verify that the required prevailing wage rate clauses are included in the contract—also known as Davis-Bacon Act compliance.
2. For each week in which work was performed under the contract, verify that the contractor submitted the required certified payrolls.

Although we did state the contractor was to be compliant with all applicable laws and regulations, the contractor did not provide this information in a timely manner and we were subsequently unable to provide these requirements during the audit.

Regarding Finding 2023-001, please know that our organization understands this requirement and will adhere to it moving forward. Our plan of action includes incorporating strict language of the requirement in both contract and bid documents, correspondence submitted weekly, and explicit penalties for a contractor if they are unable to comply, which could include withholding of payment or stopped work.

In addition to the measures above, I will be responsible to ensure all contractors are following these requirements. If you have any questions, please do not hesitate to contact me.

Best Regards,

Luke Kahren
Chief Operating Officer
luke.kahren@vcpindy.org
(317) 351-1534

VICTORY COLLEGE PREP., INC.
OTHER REPORT
For the Year Ended June 30, 2023

The reports presented herein were prepared in addition to another official report prepared for Victory College Prep, Inc. as listed below:

Supplemental Audit Report of Victory College Prep, 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*.