



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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October 14, 2015

Charter School Board  
Indiana Schools of Excellence, Inc.  
3423 S. Michigan Street  
South Bend, IN 46614-1719

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Indiana Schools of Excellence, Inc., as of June 30, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**INDIANA SCHOOLS OF EXCELLENCE, INC.**

*Financial Statements*

*June 30, 2014 and 2013*

INDIANA SCHOOLS OF EXCELLENCE, INC.

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## INDEPENDENT AUDITOR'S 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, 2014 and 2013, 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2014 and 2013, 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.

A handwritten signature in black ink, appearing to read "Raymond / Isaac LLC".

Indianapolis, IN  
June 3, 2015

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Financial Position

Assets	June 30	
	2014	2013
Current assets:		
Cash	\$ 368,451	155,809
Receivables:		
State education support	-	198,692
Grants	29,469	332,372
Other	34,927	7,322
Prepaid expenses	24,894	4,257
Total current assets	<u>457,741</u>	<u>698,452</u>
Property and equipment:		
Land	150,000	150,000
Building and improvements	2,474,601	2,465,865
Equipment	666,012	589,048
Furniture and fixtures	115,744	115,744
Less: accumulated depreciation	(1,040,259)	(747,664)
Property and equipment, net	<u>2,366,098</u>	<u>2,572,993</u>
	<u>\$ 2,823,839</u>	<u>3,271,445</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 388,208	432,162
Current portion of long-term debt	129,431	162,211
Current portion of capital lease obligation	-	5,213
Total current liabilities	<u>517,639</u>	<u>599,586</u>
Long-term debt	<u>2,055,335</u>	<u>2,191,103</u>
Total liabilities	<u>2,572,974</u>	<u>2,790,689</u>
Unrestricted net assets	<u>250,865</u>	<u>480,756</u>
	<u>\$ 2,823,839</u>	<u>3,271,445</u>

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Activities

	Year Ended June 30	
	2014	2013
<u>Revenue and Support</u>		
State education support	\$ 1,977,399	2,389,999
Grant revenue	595,432	682,656
Student fees	35,156	42,478
Other	1,413	93
Total revenue and support	<u>2,609,400</u>	<u>3,115,226</u>
<u>Expenses</u>		
Program services	2,235,649	2,360,193
Management and general	603,642	565,132
Total expenses	<u>2,839,291</u>	<u>2,925,325</u>
Change in net assets before non-operating income	(229,891)	189,901
<u>Non-Operating Income</u>		
Gain due to changes in legislative funding	<u>-</u>	<u>5,798</u>
Change in net assets	(229,891)	195,699
Net assets, beginning of year	<u>480,756</u>	<u>285,057</u>
Net assets, end of year	<u>\$ 250,865</u>	<u>480,756</u>

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Cash Flows

	Year Ended June 30	
	2014	2013
<u>Operating Activities</u>		
Change in net assets	\$ (229,891)	221,377
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Gain due to changes in legislative funding	-	(5,798)
Depreciation	292,595	292,380
Change in:		
Accounts receivable	473,990	(380,581)
Prepaid expenses	(20,637)	(4,018)
Accounts payable and accrued expenses	(43,954)	(106,957)
Net cash provided by operating activities	<u>472,103</u>	<u>16,403</u>
<u>Investing Activities</u>		
Acquisition of property and equipment	(85,700)	(52,798)
Net cash used by investing activities	<u>(85,700)</u>	<u>(52,798)</u>
<u>Financing Activities</u>		
Principal reduction of capital lease obligation	(5,213)	(18,474)
Principal repayments of long-term indebtedness	(168,548)	(154,780)
Net cash used by financing activities	<u>(173,761)</u>	<u>(173,254)</u>
Net increase (decrease) in cash	212,642	(209,649)
Cash, beginning of year	155,809	365,458
Cash, end of year	<u>\$ 368,451</u>	<u>155,809</u>
Supplemental disclosures:		
Cash paid for interest expense	\$ 118,363	140,307

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

June 30, 2014 and 2013

(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 established under Indiana Code 20-24 and is sponsored by Ball State University. The School has entered into a service agreement with American Quality Schools Corporation, an organization incorporated in the State of Illinois, to provide curriculum, managerial, administrative, and financial services to the 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.

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.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchases of these 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 .....	10 to 15 years
Equipment .....	5 to 7 years
Furniture and fixtures .....	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, 2014 and 2013, 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. The tax years ending after 2011 are open to audit for both federal and state purposes.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through June 3, 2015, 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.

(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 to December 2013 was eliminated.

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 effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$1,096,170
Repayment of accrued interest on Common School Fund loans.....	<u>104,627</u>
	1,200,797
Elimination of School funding .....	<u>(1,194,999)</u>
	<u>\$ 5,798</u>

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(3) Long-Term Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Note payable to United Bank, payable \$6,774 monthly, including interest at 3% per annum, maturing April 2018, secured by all business assets .....	\$ 500,924	565,880
Note payable to IFF, payable \$5,661 monthly, including interest at 5% per annum, maturing December 2014, secured by furniture, fixtures and equipment .....	27,956	97,980
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 .....	155,886	189,454
Note payable to IFF, interest only payable monthly at 6.5% per annum, maturing May 2018, secured by real estate.....	<u>1,500,000</u>	<u>1,500,000</u>
Total long-term debt.....	2,184,766	2,353,314
Less: current portion	<u>(129,431)</u>	<u>(162,211)</u>
	<u>\$2,055,335</u>	<u>2,191,103</u>

Principal maturities of long-term debt are scheduled as follows:

Year Ending June 30:	
2015 .....	\$ 129,431
2016 .....	107,085
2017 .....	112,264
2018 .....	1,835,986

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(4) Leases

The School leased computer equipment under a capital lease. At June 30, 2014, the cost and accumulated depreciation relating to these assets were \$165,653 and \$151,613 (\$165,653 and \$118,483 in 2013). The lease term ended in 2014, and the School retained the equipment.

The School also leases one item of office equipment under an operating lease. For the year ended June 30, 2014, rent expense under this lease was \$4,980. Future minimum lease obligations under non-cancellable operating leases with an initial lease term in excess of one year are as follows:

<u>Year Ending June 30:</u>	
2015 .....	\$ 4,980
2016 .....	4,980
2017 .....	1,245

(5) Retirement Plan

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. The School contributed 7.5% of compensation for teaching faculty to TRF. Contributions to PERF of non-teaching personnel were 7.25% of compensation through December 31, 2013 and 8.75% thereafter. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$89,839 and \$88,622 for the years ended June 30, 2014 and 2013, respectively.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(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 payments received. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent. Payments under this agreement for the years ended June 30, 2014 and 2013 were \$41,464 and \$30,014, respectively.

The School contracted with American Quality Schools Corporation, a not-for-profit organization incorporated in the State of Illinois, to provide management, administrative and educational programming services. Under the terms of the agreement, the School agreed to pay an amount equal to 6% of revenues, as defined, for such services. The contract commenced January 1, 2008 and expired June 30, 2014. The School did not renew the contract upon expiration. Management fee expense under this contract was \$124,592 and \$80,197 for the years ended June 30, 2014 and 2013.

(7) 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, 2014, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits are maintained at Notre Dame Federal Credit Union and frequently exceed the FDIC insurance limit.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(8) Accounting Correction

In 2014, the School discovered that grant revenues from 2011 received by American Quality Schools Corporation on the School's behalf had not been remitted. A receivable relating to this revenue was removed from the accounting records in error. The School corrected this error in accounting by restating previously issued financial statements. Net assets as of July 1, 2012 and subsequent periods have been increased by \$25,678 to reflect this correction.

(9) 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. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

	<u>2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$1,159,758	146,143
Employee benefits .....	279,237	42,491
Staff development and recruitment .....	7,300	-
Depreciation .....	292,595	-
Food service expense.....	111,556	-
Insurance .....	-	14,936
Interest .....	-	118,363
Miscellaneous.....	80	41,307
Occupancy .....	45,978	-
Professional fees.....	214,573	205,721
Repairs and maintenance.....	20,414	-
Supplies .....	30,052	31,054
Technology.....	59,972	840
Travel.....	<u>14,134</u>	<u>2,787</u>
	<u>\$2,235,649</u>	<u>603,642</u>

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	<u>2013</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$1,291,596	144,368
Employee benefits .....	280,644	41,017
Staff development and recruitment .....	6,446	-
Depreciation .....	292,380	-
Equipment .....	22,045	-
Food service expense.....	99,568	-
Insurance .....	-	7,781
Interest .....	-	170,902
Miscellaneous .....	-	19,277
Occupancy .....	28,617	-
Professional fees.....	212,967	155,761
Repairs and maintenance.....	11,288	-
Supplies .....	55,035	21,270
Technology.....	53,742	840
Travel.....	<u>5,865</u>	<u>3,916</u>
	<u>\$2,360,193</u>	<u>565,132</u>

INDIANA SCHOOLS OF EXCELLENCE, INC.

Other Reports

Year Ended June 30, 2014

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*.