



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

B46137

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](http://www.in.gov/sboa)

April 14, 2016

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 Donovan P.C., Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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, 2015, 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 Emphasis of Matter Regarding Going Concern paragraph included in the Independent Auditor's Report and further detailed in Note 6.

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, 2015 and 2014*



INDIANA SCHOOLS OF EXCELLENCE, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-13
Other Reports	14



## 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, 2015 and 2014, 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, 2015 and 2014, 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.

### **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 6 to the financial statements, the School has incurred losses from operations and has a deficiency in net assets as of June 30, 2015, 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 6. 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.

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

Indianapolis, IN  
February 24, 2016

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2015	2014
Current assets:		
Cash	\$ 138,959	368,451
Receivables:		
Grants	69,222	29,469
Other	34,927	34,927
Prepaid expenses	6,854	24,894
Total current assets	249,962	457,741
Property and equipment:		
Land	150,000	150,000
Building and improvements	2,476,851	2,474,601
Equipment	688,643	666,012
Furniture and fixtures	115,744	115,744
Less: accumulated depreciation	(1,309,484)	(1,040,259)
Property and equipment, net	2,121,754	2,366,098
	\$ 2,371,717	2,823,839
 <u>Liabilities and Net Assets (Deficiency)</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 378,508	388,208
Current portion of long-term debt	107,084	129,431
Total current liabilities	485,592	517,639
Long-term debt	1,948,177	2,055,335
Total liabilities	2,433,769	2,572,974
Unrestricted net assets (deficiency)	(62,052)	250,865
	\$ 2,371,717	2,823,839

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Activities

	<u>Year Ended June 30</u>	
	<u>2015</u>	<u>2014</u>
<u>Revenue and Support</u>		
State education support	\$ 1,989,852	1,977,399
Grant revenue	488,961	595,432
Student fees	16,437	35,156
Other	13,206	1,413
Total revenue and support	<u>2,508,456</u>	<u>2,609,400</u>
<u>Expenses</u>		
Program services	2,241,645	2,235,649
Management and general	579,728	603,642
Total expenses	<u>2,821,373</u>	<u>2,839,291</u>
Change in net assets	(312,917)	(229,891)
Net assets, beginning of year	<u>250,865</u>	<u>480,756</u>
Net assets (deficiency), end of year	<u><u>\$ (62,052)</u></u>	<u><u>250,865</u></u>

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
<u>Operating Activities</u>		
Change in net assets	\$ (312,917)	(229,891)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	269,225	292,595
Change in:		
Accounts receivable	(39,753)	473,990
Prepaid expenses	18,040	(20,637)
Accounts payable and accrued expenses	(9,700)	(43,954)
Net cash provided (used) by operating activities	<u>(75,105)</u>	<u>472,103</u>
<u>Investing Activities</u>		
Acquisition of property and equipment	(24,881)	(85,700)
Net cash used by investing activities	<u>(24,881)</u>	<u>(85,700)</u>
<u>Financing Activities</u>		
Principal reduction of capital lease obligation	-	(5,213)
Principal repayments of long-term indebtedness	(129,506)	(168,548)
Net cash used by financing activities	<u>(129,506)</u>	<u>(173,761)</u>
Net increase (decrease) in cash	(229,492)	212,642
Cash, beginning of year	<u>368,451</u>	<u>155,809</u>
Cash, end of year	<u>\$ 138,959</u>	<u>368,451</u>
Supplemental disclosures:		
Cash paid for interest expense	\$ 126,655	118,363

See accompanying notes to financial statements.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(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 February 24, 2016, 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) Long-Term Debt

Long-term debt at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Note payable to United Bank, payable \$6,774 monthly, including interest at 3% per annum, maturing April 2018, secured by all business assets .....	\$433,668	500,924
Note payable to IFF, payable \$5,661 monthly, including interest at 5% per annum, matured December 2014 .....	-	27,956
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 .....	121,593	155,886
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>
	2,055,261	2,184,766
Less: current portion	<u>(107,084)</u>	<u>(129,431)</u>
Long-term portion	<u>\$1,948,177</u>	<u>2,055,335</u>

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(2) Long-Term Debt, continued

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

Year Ending June 30:	
2016.....	\$107,084
2017.....	112,264
2018.....	1,835,986

(3) Leases

The School leases one item of office equipment under an operating lease. For the year ended June 30, 2015, 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>	
2016.....	\$4,980
2017.....	1,245

(4) 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 8.75% of compensation for other eligible employees to PERF through December 31, 2014, and 10.25% thereafter. 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, 2014 (the latest year reported), both TRF and PERF were more than 80% funded. A copy of the complete annual report for the year ended June 30, 2014 can be obtained at:

[www.in.gov/inprs/files/2014INPRSCAFRBook\\_Web.pdf](http://www.in.gov/inprs/files/2014INPRSCAFRBook_Web.pdf)

Retirement plan expense was \$90,997 and \$89,839 for the years ended June 30, 2015 and 2014, respectively.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(5) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition 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, 2015 and 2014 were \$36,948 and \$41,464, 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 for the year ended June 30, 2014.

(6) Going Concern Consideration

As reflected in the accompanying financial statements, the School incurred significant losses for the years ended June 30, 2015 and 2014, and had a deficiency in net assets of \$62,052 as of June 30, 2015. The deficiency in net assets continues to grow in the 2015-2016 school year, however at a lower rate. These factors raise substantial doubt about the School's ability to continue as a going concern. The ability of the School to continue as a going concern is dependent upon the School obtaining new sources of funding or financing, controlling their operating expenses, and the continued support of their creditors. During the 2015-2016 school year, the School has worked to reduce personnel, seek creative funding sources and monitor its cash needs. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(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, 2015, 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) 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>2015</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$1,218,648	205,631
Employee benefits .....	314,503	78,315
Staff development and recruitment .....	25,614	670
Depreciation .....	269,225	-
Food service expense.....	109,623	-
Insurance .....	-	9,636
Interest .....	-	126,655
Miscellaneous.....	-	36,638
Equipment .....	10,966	210
Occupancy .....	47,594	-
Professional fees.....	141,310	104,687
Repairs and maintenance.....	12,721	-
Supplies .....	26,632	17,136
Technology.....	54,427	150
Travel.....	<u>10,382</u>	<u>-</u>
	<u>\$2,241,645</u>	<u>579,728</u>

INDIANA SCHOOLS OF EXCELLENCE, INC.

Notes to Financial Statements

(8) Functional Expense Reporting, Continued

	<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.

Other Reports

Year Ended June 30, 2015

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*.