



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B47362

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, 2016

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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, 2016, 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 5.

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.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

INDIANA SCHOOLS OF EXCELLENCE, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Change in Net Assets (Deficiency)	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 10
 OTHER REPORT	 11



Independent Auditors' Report

The Board of Directors
Indiana Schools of Excellence, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Schools of Excellence, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and change in net assets (deficiency), functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Schools of Excellence, Inc. as of June 30, 2016 and 2015, and the changes in its net assets (deficiency), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 5 to the financial statements, the School has incurred losses from operations and has a deficiency in net assets as of June 30, 2016, 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 5. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, looped initial "D".

Indianapolis, Indiana
December 13, 2016

INDIANA SCHOOLS OF EXCELLENCE, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 71,548	\$ 138,959
Grants receivable	20,278	69,222
Other receivables	34,927	34,927
Prepaid expenses	<u>5,380</u>	<u>6,854</u>
<i>Total current assets</i>	<u>132,133</u>	<u>249,962</u>
PROPERTY AND EQUIPMENT		
Land	150,000	150,000
Buildings and improvements	2,476,851	2,476,851
Furniture and equipment	809,547	804,387
Less: accumulated depreciation	<u>(1,568,822)</u>	<u>(1,309,484)</u>
<i>Property and equipment, net</i>	<u>1,867,576</u>	<u>2,121,754</u>
TOTAL ASSETS	<u><u>\$ 1,999,709</u></u>	<u><u>\$ 2,371,716</u></u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 112,264	\$ 107,084
Accounts payable and accrued expenses	<u>413,252</u>	<u>378,508</u>
<i>Total current liabilities</i>	525,516	485,592
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>1,832,495</u>	<u>1,948,177</u>
<i>Total liabilities</i>	2,358,011	2,433,769
NET DEFICIENCY, UNRESTRICTED	<u>(358,302)</u>	<u>(62,053)</u>
TOTAL LIABILITIES AND NET DEFICIENCY	<u><u>\$ 1,999,709</u></u>	<u><u>\$ 2,371,716</u></u>

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

INDIANA SCHOOLS OF EXCELLENCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
State education support	\$ 1,698,795	\$ 1,989,852
Grant revenue	544,385	488,961
Student fees	13,229	16,437
Other income	<u>1,562</u>	<u>13,206</u>
<i>Total revenue and support</i>	<u>2,257,971</u>	<u>2,508,456</u>
EXPENSES		
Program services	2,067,449	2,241,646
Management and general	<u>486,771</u>	<u>579,728</u>
<i>Total expenses</i>	<u>2,554,220</u>	<u>2,821,374</u>
CHANGE IN NET ASSETS	(296,249)	(312,918)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>(62,053)</u>	<u>250,865</u>
NET DEFICIENCY, END OF YEAR	<u><u>\$ (358,302)</u></u>	<u><u>\$ (62,053)</u></u>

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

INDIANA SCHOOLS OF EXCELLENCE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>			<u>2015</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>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 1,159,391	\$ 189,509	\$ 1,348,900	\$ 1,218,648	\$ 205,631	\$ 1,424,279
Employee benefits	308,322	76,573	384,895	314,503	78,315	392,818
Staff development and recruitment	7,582	1,110	8,692	25,614	670	26,284
Depreciation	259,338	-	259,338	269,225	-	269,225
Food service expense	87,055	-	87,055	109,623	-	109,623
Insurance	-	12,321	12,321	-	9,636	9,636
Interest	-	117,588	117,588	-	126,655	126,655
Equipment	-	-	-	10,966	210	11,176
Occupancy	42,014	-	42,014	47,594	-	47,594
Professional services	121,667	70,078	191,745	141,311	104,687	245,998
Repairs and maintenance	3,986	-	3,986	12,721	-	12,721
Classroom and office supplies	27,949	14,215	42,164	26,632	17,136	43,768
Information Technology	48,412	-	48,412	54,427	150	54,577
Travel	1,733	424	2,157	10,382	-	10,382
Other	-	4,953	4,953	-	36,638	36,638
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total functional expenses</i>	<u>\$ 2,067,449</u>	<u>\$ 486,771</u>	<u>\$ 2,554,220</u>	<u>\$ 2,241,646</u>	<u>\$ 579,728</u>	<u>\$ 2,821,374</u>

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

INDIANA SCHOOLS OF EXCELLENCE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (296,249)	\$ (312,918)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	259,338	269,225
Change in certain assets and liabilities:		
Grants receivable	48,944	(39,753)
Prepaid expenses	1,474	18,040
Accounts payable and accrued expenses	<u>34,744</u>	<u>(9,700)</u>
 <i>Net cash provided by (used in) operating activities</i>	 48,251	 (75,106)
INVESTING ACTIVITIES		
Purchases of property and equipment	(5,160)	(24,881)
FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(110,502)</u>	<u>(129,505)</u>
NET CHANGE IN CASH	(67,411)	(229,492)
CASH, BEGINNING OF YEAR	<u>138,959</u>	<u>368,451</u>
CASH, END OF YEAR	<u>\$ 71,548</u>	<u>\$ 138,959</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 117,588	\$ 126,655

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

INDIANA SCHOOLS OF EXCELLENCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indiana Schools of Excellence, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school (Xavier School of Excellence) established under Indiana Code 20-24 and is sponsored by Ball State University. The School serves students from Kindergarten through eighth grade.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Accounts Receivable – Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Other Receivables – Other receivables consist of a balance the School believes it is owed from its prior management company. Management is working through an attorney for collections. Management believes the School will collect on the receivable and that no reserve is deemed necessary as of June 30, 2016.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

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

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$1,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Buildings and improvements	10 to 15 years
Furniture and equipment	5 to 7 years

INDIANA SCHOOLS OF EXCELLENCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2016 and 2015, 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 2012 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 13, 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.

NOTE 2 - NOTES PAYABLE

Notes payable consists of the following at June 30, 2016:

	<u>2016</u>	<u>2015</u>
Note payable to United Bank, payable \$6,774 monthly, including interest at 3.0% per annum, maturing April 2018, secured by all business assets	\$ 361,430	\$ 433,668
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	83,329	121,593
Note payable to IFF, interest only payable monthly at 6.5% per annum, maturing in May 2018, secured by real estate	1,500,000	1,500,000
	<u>1,944,759</u>	<u>2,055,261</u>
Less: current position	<u>(112,264)</u>	<u>(107,084)</u>
Long-term portion	\$ <u>1,832,495</u>	\$ <u>1,948,177</u>

INDIANA SCHOOLS OF EXCELLENCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 2 - NOTES PAYABLE, Continued

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

2017		\$	112,264
2018			<u>1,832,495</u>
		\$	<u><u>1,994,759</u></u>

NOTE 3 - 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, 2015 (the latest year reported), both TRF and PERF were more than 80% funded.

Retirement plan expense was \$83,782 and \$90,997 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition payments received. Payments under this agreement for the years ended June 30, 2016 and 2015 were \$35,539 and \$36,948, respectively. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent.

INDIANA SCHOOLS OF EXCELLENCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 5 - GOING CONCERN CONSIDERATION

As reflected in the accompanying financial statements, the School incurred significant losses for the years ended June 30, 2016 and 2015, and had a deficiency in net assets of \$358,302 as of June 30, 2016. The deficiency in net assets continues to grow in the 2016-2017 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 and authorizing sponsor. During the 2016-2017 school year, the School has continued to work 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.

NOTE 6 - 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, 2016, the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at Notre Dame Federal Credit Union and occasionally exceed the FDIC insurance limit.

NOTE 7 - FUNCTIONAL EXPENSE REPORTING

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

INDIANA SCHOOLS OF EXCELLENCE, INC.
OTHER REPORT
For the Year Ended June, 30 2016

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*.