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December 21, 2017


Charter School Board  
Global Preparatory Academy, Inc.  
2033 Sugar Grove Ave  
Indianapolis, IN 46202

We have reviewed the report prepared by Global Preparatory Academy, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Global Preparatory Academy, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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

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

  
Paul D. Joyce, CPA  
State Examiner

**GLOBAL PREPARATORY ACADEMY, INC.**

FINANCIAL STATEMENTS  
Together with Independent Auditors' Report

For the Year Ended June 30, 2017



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# Donovan CPAs

## *Independent Auditors' Report*

The Board of Directors  
Global Preparatory Academy, Inc.

We have audited the accompanying financial statements of Global Preparatory Academy, Inc., which comprise the statement of financial position as of June 30, 2017, 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.

### **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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Global Preparatory Academy, Inc. as of June 30, 2017, and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent "D" at the beginning.

Indianapolis, Indiana

December 12, 2017

**GLOBAL PREPARATORY ACADEMY, INC.**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2017**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 1,177,778
Grants receivable	<u>70,553</u>
<i>Total current assets</i>	<u>1,248,331</u>

**PROPERTY AND EQUIPMENT**

Furniture and equipment	21,558
Less: accumulated depreciation	<u>(4,313)</u>
<i>Property and equipment, net</i>	<u>17,245</u>

**TOTAL ASSETS**

\$ 1,265,576

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Current portion of note payable	\$ 25,000
Accounts payable and accrued expenses	220,557
Refundable advances	<u>22,194</u>
<i>Total current liabilities</i>	267,751

**LONG-TERM LIABILITIES**

Note payable, net of current portion	<u>475,000</u>
<i>Total liabilities</i>	742,751

**NET ASSETS, UNRESTRICTED**

522,825

**TOTAL LIABILITIES AND NET ASSETS**

\$ 1,265,576

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

**GLOBAL PREPARATORY ACADEMY, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For the Year Ended June 30, 2017**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
State education support	\$ 3,485,820	\$ -	\$ 3,485,820
Grants and contributions	773,637	-	773,637
Interest	969	-	969
Other	13,587	-	13,587
Released from restrictions	<u>174,374</u>	<u>(174,374)</u>	<u>-</u>
<i>Total revenue and support</i>	<u>4,448,387</u>	<u>(174,374)</u>	<u>4,274,013</u>
<b>EXPENSES</b>			
Program services	3,088,082	-	3,088,082
Management and general	<u>855,577</u>	<u>-</u>	<u>855,577</u>
<i>Total expenses</i>	<u>3,943,659</u>	<u>-</u>	<u>3,943,659</u>
<b>CHANGE IN NET ASSETS</b>	504,728	(174,374)	330,354
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>18,097</u>	<u>174,374</u>	<u>192,471</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 522,825</u>	<u>\$ -</u>	<u>\$ 522,825</u>

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

**GLOBAL PREPARATORY ACADEMY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2017**

	<b><u>Program Services</u></b>	<b><u>Management and General</u></b>	<b><u>Total</u></b>
<b>FUNCTIONAL EXPENSES</b>			
Salaries and wages	\$ 1,771,686	\$ 457,571	\$ 2,229,257
Employee benefits	468,614	190,316	658,930
Staff development	122,825	-	122,825
Professional services	114,800	137,434	252,234
Student transportation	31,785	-	31,785
Advertising	-	4,156	4,156
Food costs	206,310	-	206,310
Travel and meetings	12,409	10,991	23,400
Classroom and office supplies	229,302	42,287	271,589
Information technology	93,760	914	94,674
Depreciation	4,313	-	4,313
Interest	3,639	-	3,639
Insurance	20,114	-	20,114
Other	8,525	11,908	20,433
	<u>8,525</u>	<u>11,908</u>	<u>20,433</u>
<i>Total functional expenses</i>	<u>\$ 3,088,082</u>	<u>\$ 855,577</u>	<u>\$ 3,943,659</u>

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



**GLOBAL PREPARATORY ACADEMY, INC.**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2017**

**OPERATING ACTIVITIES**

Change in net assets	\$ 330,354
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,313
Changes in certain assets and liabilities:	
Grants receivable	(1,821)
Accounts payable and accrued expenses	210,535
Refundable advances	<u>22,194</u>
<i>Net cash provided by operating activities</i>	565,575

**INVESTING ACTIVITIES**

Purchases of property and equipment	(21,558)
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**FINANCING ACTIVITIES**

Proceeds from note payable	<u>500,000</u>
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**NET CHANGE IN CASH**

1,044,017

**CASH, BEGINNING OF YEAR**

133,761

**CASH, END OF YEAR**

\$ 1,177,778

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

**GLOBAL PREPARATORY ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – Global Preparatory Academy, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School commenced operations as a public charter school on July 1, 2016 under Indiana Code 20-24. The School is sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis.

The School has entered into an Innovation Network School Management Agreement with Indianapolis Public Schools ("IPS"). The agreement allows IPS to enter into an agreement with the School to operate a charter school within an IPS building. The agreement is for a term of four years, ending June 30, 2020. Under the agreement, IPS will pay to the School the amount the School would receive from the State of Indiana for state basic tuition support and complexity grant funding as if the School were a traditional charter school. The agreement can be terminated annually by either party, by providing written notice at least 180 days prior to the end of the school year.

The School received valuable in-kind services from IPS for rent and other shared services for the year ended June 30, 2017. The value of these services is unable to be estimated as of the date of these financial statements, and as such, no in-kind contribution or expense has been reflected.

The School served approximately 500 students in grades kindergarten through six in fiscal year 2017.

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

- Unrestricted net assets - represents net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets - represents net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time. At June 30, 2016, the School's temporarily restricted net assets consisted of \$174,374 of unspent funds from the \$250,000 Walton Family Foundation grant. The remaining funds were spent during fiscal year 2017.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs. 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 – As discussed in Note 1, the majority of the revenue comes from IPS, as part of the Innovation Network School Management Agreement. Under the agreement with IPS, the School receives an amount per student in equal portion as if the School acted as a traditional charter school. Funding from IPS is received monthly.

Revenue is recognized in the year in which the educational services are rendered.

**GLOBAL PREPARATORY ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Revenue Recognition, Continued – A portion of the School’s revenue is the product of cost reimbursement grants. Therefore, the School recognizes revenue under these grants in the amounts 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 small equipment purchases are charged to expense as incurred.

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

Furniture and equipment	5 years
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Taxes on Income – Global Preparatory Academy, 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 year ended June 30, 2017, 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.

As discussed in Note 7, the School erroneously did not file IRS Forms 990 for tax years 2013 through 2015, and as a result lost its 501(c)(3) tax-exempt status. The School is in the process of filing the late returns as well as applying for retroactive reinstatement of its tax-exempt status.

Subsequent Events – The School evaluated subsequent events through December 12, 2017, 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 require.

**NOTE 2 - PRIOR PERIOD FINANCIAL ACTIVITY**

Prior to the year ended June 30, 2017 (the School’s first year of operations), the School received income from several grants and contributions to fund necessary startup costs. The School had a cash balance of \$133,761, grants receivable of \$68,732, accounts payable of \$10,022, and a net assets balance of \$192,471 as of July 1, 2016. Of the net assets balance at July 1, 2016, \$174,374 was temporarily restricted, as stated in Note 1.

**GLOBAL PREPARATORY ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

**NOTE 3 - REFUNDABLE ADVANCES**

The School has been awarded grants to provide educational instruction that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017, the School had refundable grant advances in excess of expenditures of \$22,194.

**NOTE 4 - NOTE PAYABLE**

The note payable consisted of the following at June 30, 2017:

Note payable to State Board of Education, payable \$25,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum. First payment due January 1, 2018.	\$ 500,000
Less: current portion	<u>(25,000)</u>
Long-term portion	<u>\$ 475,000</u>

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School's future tuition support payments on the School's basic grant.

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

2018	\$ 25,000
2019	50,000
2020	50,000
2021	50,000
2022	50,000
Thereafter	<u>275,000</u>
	<u>\$ 500,000</u>

**NOTE 5 - RETIREMENT PLANS**

The School maintains a defined contribution Section 403(b) retirement plan covering substantially all employees. The plan allows employees to make salary deferral contributions and provides that the School will make contributions at its discretion. Alternatively, an employee may participate in the Indiana State Teachers' Retirement Plan ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan sponsored by the State of Indiana and administered by the Indiana Public Retirement System Board. For the year ended June 30, 2017, the School contributed 7.5% of defined compensation to each employee's account to their plan of choice. Retirement plan expense was \$12,594 for the year ended June 30, 2017.

**GLOBAL PREPARATORY ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 6 - RISKS AND UNCERTAINTIES**

The School provides educational instruction services to families residing in Indianapolis 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, 2017, all of the receivable balance was due from the State of Indiana. In addition, deposits are maintained at The National Bank of Indianapolis and are insured up to the FDIC insurance limit. As of June 30, 2017, funds held at The National Bank of Indianapolis exceeded FDIC insurance limits.

**NOTE 7 - LATE FILING OF IRS FORMS 990**

The School was incorporated during the fiscal year June 30, 2014 and began operations on July 1, 2016. The School erroneously did not file IRS Forms 990 for tax years 2013 through 2015 (fiscal years 2014 through 2016), thus these years are delinquent. Each delinquent filing carries a potential maximum penalty of \$50,000 for a total maximum penalty of \$150,000. In addition to any potential penalty, the School had its tax-exempt status revoked in 2017 for failing to file its Forms 990 for three consecutive years.

As of the date of the audit report, the School is in the process of filing all required Forms 990 for tax years through June 30, 2016 and seeking abatement for any penalties and reinstatement of its 501(c)(3) tax-exempt status. The School does not anticipate a permanent loss of its tax-exempt status nor a penalty assessment. The financial statements do not include any allocation for IRS penalties nor income tax expense.

**NOTE 8 - FUNCTIONAL EXPENSE REPORTING**

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

**GLOBAL PREPARATORY ACADEMY, INC.**

**OTHER REPORT**

**For the Year Ended June 30, 2017**

The reports presented herein were prepared in addition to another official report prepared for the School is listed below:

Global Preparatory Academy, 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*.