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February 7, 2018

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

We have reviewed the report prepared by Indiana Schools of Excellence, 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 Indiana Schools of Excellence, 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.

We call your attention to the Emphasis-of-Matter Regarding Going Concern paragraph included in the Independent Auditors' Report and further detailed in Note 2.

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 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, 2017 and 2016



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# Donovan CPAs

## *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, 2017 and 2016, and the related statements of activities and change in net 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.

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## **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, 2017 and 2016, and the changes in its net 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 2 to the financial statements, the School has incurred losses from operations, has a significant deficiency in net assets, and long-term debt matures during 2018, 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 2. 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, stylized initial "D".

Indianapolis, Indiana  
December 21, 2017

**INDIANA SCHOOLS OF EXCELLENCE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 33,075	\$ 71,548
Grants receivable	95,487	20,278
Other receivable	-	34,927
Prepaid expenses	980	5,380
<i>Total current assets</i>	<u>129,542</u>	<u>132,133</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	150,000	150,000
Buildings and improvements	2,476,851	2,476,851
Furniture and equipment	809,547	809,547
Less: accumulated depreciation	(1,787,584)	(1,568,822)
<i>Property and equipment, net</i>	<u>1,648,814</u>	<u>1,867,576</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,778,356</u>	<u>\$ 1,999,709</u>
<b>LIABILITIES AND NET DEFICIENCY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 1,829,759	\$ 112,264
Trade payables	39,096	71,443
Other payable	208,578	187,286
Accrued payroll and related liabilities	136,309	154,523
<i>Total current liabilities</i>	<u>2,213,742</u>	<u>525,516</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	-	1,832,495
<i>Total liabilities</i>	<u>2,213,742</u>	<u>2,358,011</u>
<b>NET DEFICIENCY, UNRESTRICTED</b>	<u>(435,386)</u>	<u>(358,302)</u>
<b>TOTAL LIABILITIES AND NET DEFICIENCY</b>	<u>\$ 1,778,356</u>	<u>\$ 1,999,709</u>

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

**INDIANA SCHOOLS OF EXCELLENCE, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIENCY**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 1,519,128	\$ 1,698,795
Grant revenue	545,995	544,385
Student fees	8,861	13,229
Other income	3,919	1,562
	<u>2,077,903</u>	<u>2,257,971</u>
<i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	1,621,108	2,067,449
Management and general	533,879	486,771
	<u>2,154,987</u>	<u>2,554,220</u>
<i>Total expenses</i>		
<b>CHANGE IN NET DEFICIENCY</b>	(77,084)	(296,249)
<b>NET DEFICIENCY, BEGINNING OF YEAR</b>	<u>(358,302)</u>	<u>(62,053)</u>
<b>NET DEFICIENCY, END OF YEAR</b>	<u>\$ (435,386)</u>	<u>\$ (358,302)</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, 2017 and 2016**

	<u>2017</u>			<u>2016</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>
<b>FUNCTIONAL EXPENSES</b>						
Salaries and wages	\$ 815,746	\$ 217,509	\$ 1,033,255	\$ 1,159,391	\$ 189,509	\$ 1,348,900
Employee benefits	253,950	60,096	314,046	308,322	76,573	384,895
Staff development and recruitment	8,370	1,916	10,286	7,582	1,110	8,692
Depreciation	218,762	-	218,762	259,338	-	259,338
Food service expense	74,304	-	74,304	87,055	-	87,055
Insurance	-	17,815	17,815	-	12,321	12,321
Interest	-	120,284	120,284	-	117,588	117,588
Occupancy	49,899	-	49,899	42,014	-	42,014
Professional services	99,172	61,339	160,511	121,667	70,078	191,745
Repairs and maintenance	14,397	-	14,397	3,986	-	3,986
Classroom and office supplies	23,050	14,796	37,846	27,949	14,215	42,164
Information technology	54,938	-	54,938	48,412	-	48,412
Travel	8,520	-	8,520	1,733	424	2,157
Write off of other receivable	-	34,927	34,927	-	-	-
Other	-	5,197	5,197	-	4,953	4,953
<i>Total functional expenses</i>	<u>\$ 1,621,108</u>	<u>\$ 533,879</u>	<u>\$ 2,154,987</u>	<u>\$ 2,067,449</u>	<u>\$ 486,771</u>	<u>\$ 2,554,220</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in net deficiency	\$ (77,084)	\$ (296,249)
Adjustments to reconcile change in net deficiency to net cash provided by operating activities:		
Depreciation	218,762	259,338
Change in certain assets and liabilities:		
Grants receivable	(75,209)	48,944
Other receivable	34,927	-
Prepaid expenses	4,400	1,474
Trade payables	(32,347)	41,034
Other payable	21,292	7,165
Accrued payroll and related liabilities	<u>(18,214)</u>	<u>(13,455)</u>
<i>Net cash provided by operating activities</i>	76,527	48,251
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(5,160)
<b>FINANCING ACTIVITIES</b>		
Principal payments on notes payable	<u>(115,000)</u>	<u>(110,502)</u>
<b>NET CHANGE IN CASH</b>	(38,473)	(67,411)
<b>CASH, BEGINNING OF YEAR</b>	<u>71,548</u>	<u>138,959</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 33,075</u></u>	<u><u>\$ 71,548</u></u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 120,284	\$ 117,588

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, 2017 and 2016**

**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. During the 2016-2017 school year, the School served approximately 205 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.

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

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, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

**INDIANA SCHOOLS OF EXCELLENCE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

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

Taxes on Income, Continued - 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 2013 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 31, 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 required.

**NOTE 2 - GOING CONCERN CONSIDERATION**

As reflected in the accompanying financial statements, the School incurred significant losses for the years ended June 30, 2017 and 2016, and had a deficiency in net assets of \$436,366 as of June 30, 2017. At June 30, 2017, current assets do not cover the amount of accounts payable and accrued expenses due. In addition, \$1,829,759 of notes payable mature during the year ending June 30, 2018. Finally, the School's current charter with Ball State University expires on June 30, 2018. These factors raise substantial doubt about the School's ability to continue as a going concern.

**NOTE 3 - OTHER RECEIVABLE**

Other receivable consists of a balance the School believes is owed from its prior management company. During 2016 and 2017, management has worked through an attorney to collect this balance, without success. Management believes the School will ultimately be successful in collecting the balance, but has established a reserve against it. As such, the reported balance as of June 30, 2017 is zero.

**INDIANA SCHOOLS OF EXCELLENCE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 4 - NOTES PAYABLE**

Notes payable consists of the following at June 30:

	<u>2017</u>	<u>2016</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	\$ 287,523	\$ 361,430
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	42,236	83,329
Note payable to IFF, interest only payable monthly at 6.5% per annum, maturing in May 2018, secured by real estate	<u>1,500,000</u>	<u>1,500,000</u>
	1,829,759	1,944,759
Less: current portion	<u>(1,829,759)</u>	<u>(112,264)</u>
Long-term portion	\$ <u><u>-</u></u>	\$ <u><u>1,832,495</u></u>

**NOTE 5 - OTHER PAYABLE**

The School contracted with Food Service Professionals (“FSP”) to provide food service on-site to its students and employees. The School terminated its contract with FSP as of June 30, 2017. The School has a payable to FSP totaling \$208,578 and \$187,286 as of June 30, 2017 and 2016, respectively.

**NOTE 6 - 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 11.2% of compensation for other eligible employees to PERF. 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, 2016 (the latest year reported), both TRF and PERF were more than 80% funded.

**INDIANA SCHOOLS OF EXCELLENCE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 6 - RETIREMENT PLAN, Continued**

Retirement plan expense was \$70,917 and \$83,782 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 7 - 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, 2017 and 2016 were \$31,215 and \$35,539, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

**NOTE 8 - 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, 2017, 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 9 - FUNCTIONAL EXPENSE REPORTING**

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

**INDIANA SCHOOLS OF EXCELLENCE, INC.**  
**OTHER REPORT**  
**For the Year Ended June, 30 2017**

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*.