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March 14, 2018

Charter School Board  
Indiana College Preparatory School, Inc.  
4050 E 38th St  
Indianapolis, IN 46218

We have reviewed the report prepared by Indiana College Preparatory School, 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*, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements included in the report present fairly the financial condition of Indiana College Preparatory School, 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 Basis for Qualified Opinion in the audit 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 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 College Preparatory School, 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, CPA  
State Examiner

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**

FINANCIAL STATEMENTS  
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



## TABLE OF CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1 - 2
<b>FINANCIAL STATEMENTS</b>	
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 - 11
<b>OTHER REPORT</b> .....	12



# Donovan CPAs

## *Independent Auditors' Report*

The Board of Directors  
Indiana College Preparatory School, Inc.

We have audited the accompanying financial statements of Indiana College Preparatory School, Inc. (the "School"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

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### **Basis for Qualified Opinion**

During the year ended June 30, 2017, the School reflected revenue of \$364,248 relating to amounts claimed and received for its Title I grant. We were unable to obtain sufficient appropriate audit evidence to support a material amount of expenses applied to this cost-reimbursement grant. Consequently, we were unable to determine if amounts claimed were accurate and if any adjustment to this revenue was necessary.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana College Preparatory School, Inc. as of June 30, 2017 and 2016, 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 2 to the financial statements, the School has incurred significant recurring losses from operations and has a deficiency in net assets of \$933,378 as of June 30, 2017. Additionally, the cash and other current assets as of June 30, 2017 are insufficient to meet the existing liabilities coming due in the next fiscal year. These factors combined raise substantial doubt about the School's 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 dark ink that reads "DONOVAN". The letters are cursive and somewhat stylized, with the 'D' being particularly large and the 'N' having a long tail.

Indianapolis, Indiana  
February 1, 2018

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2017 and 2016**

<b>ASSETS</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>CURRENT ASSETS</b>		
Cash	\$ 95,185	\$ 38,488
Grants receivable	2,258	22,344
Other receivables	<u>-</u>	<u>10,835</u>
<i>Total current assets</i>	<u>97,443</u>	<u>71,667</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	186,201	186,201
Textbooks	63,639	63,639
Less: accumulated depreciation	<u>(99,938)</u>	<u>(49,969)</u>
<i>Property and equipment, net</i>	<u>149,902</u>	<u>199,871</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 247,345</u></b>	<b><u>\$ 271,538</u></b>
<b>LIABILITIES AND NET DEFICIENCY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of note payable	\$ 50,000	\$ 25,000
Accounts payable	431,782	176,796
Accrued rent expense	145,830	135,000
Other accrued expenses	<u>74,440</u>	<u>66,092</u>
<i>Total current liabilities</i>	<u>702,052</u>	<u>402,888</u>
<b>LONG-TERM LIABILITIES</b>		
Note payable, net of current portion	425,000	475,000
Deferred rent payable	<u>53,671</u>	<u>-</u>
<i>Total long-term liabilities</i>	<u>478,671</u>	<u>475,000</u>
<i>Total liabilities</i>	1,180,723	877,888
<b>NET DEFICIENCY</b>	<b><u>(933,378)</u></b>	<b><u>(606,350)</u></b>
<b>TOTAL LIABILITIES AND NET DEFICIENCY</b>	<b><u>\$ 247,345</u></b>	<b><u>\$ 271,538</u></b>

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

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 1,727,716	\$ 2,222,663
Grant revenue	796,659	625,103
Other income	<u>16,656</u>	<u>8,999</u>
<i>Total revenue and support</i>	<u>2,541,031</u>	<u>2,856,765</u>
<b>EXPENSES</b>		
Program services	2,142,690	2,613,967
Management and general	<u>725,369</u>	<u>1,023,148</u>
<i>Total expenses</i>	<u>2,868,059</u>	<u>3,637,115</u>
<b>CHANGE IN NET ASSETS</b>	(327,028)	(780,350)
<b>NET ASSETS (DEFICIENCY), BEGINNING OF YEAR</b>	<u>(606,350)</u>	<u>174,000</u>
<b>NET DEFICIENCY, END OF YEAR</b>	<u><u>\$ (933,378)</u></u>	<u><u>\$ (606,350)</u></u>

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

**INDIANA COLLEGE PREPARATORY SCHOOL, 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	\$ 797,199	\$ 89,849	\$ 887,048	\$ 1,141,018	\$ 128,592	\$ 1,269,610
Employee benefits	147,226	28,576	175,802	185,590	36,022	221,612
Staff development	1,099	275	1,374	6,762	1,691	8,453
Professional services	234,247	461,975	696,222	323,603	656,432	980,035
Food services	160,231	-	160,231	185,663	-	185,663
Transportation services	272,346	-	272,346	206,766	-	206,766
Classroom, kitchen, and office supplies	33,657	16,043	49,700	96,428	45,961	142,389
Occupancy	431,655	107,914	539,569	417,566	104,390	521,956
Depreciation	39,975	9,994	49,969	39,975	9,994	49,969
Interest	-	4,479	4,479	-	-	-
Other	25,055	6,264	31,319	10,596	40,066	50,662
<i>Total functional expenses</i>	<u>\$ 2,142,690</u>	<u>\$ 725,369</u>	<u>\$ 2,868,059</u>	<u>\$ 2,613,967</u>	<u>\$ 1,023,148</u>	<u>\$ 3,637,115</u>

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

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2017 and 2016**

	<u><b>2017</b></u>	<u><b>2016</b></u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (327,028)	\$ (780,350)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	49,969	49,969
Change in certain assets and liabilities:		
Grants receivable	20,086	151,656
Other receivables	10,835	(10,835)
Accounts payable	254,986	176,796
Accrued rent expense	10,830	135,000
Accrued other expenses	8,348	66,092
Deferred rent payable	<u>53,671</u>	<u>-</u>
 <i>Net cash provided by (used in) operating activities</i>	 81,697	 (211,672)
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(249,840)
<b>FINANCING ACTIVITIES</b>		
Proceeds from (principal repayments on) note payable	<u>(25,000)</u>	<u>500,000</u>
<b>NET CHANGE IN CASH</b>	56,697	38,488
<b>CASH, BEGINNING OF YEAR</b>	<u>38,488</u>	<u>-</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 95,185</u></u>	<u><u>\$ 38,488</u></u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 4,479	\$ -

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

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

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

General – Indiana College Preparatory School, 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, 2015 under Indiana Code 20-24 serving approximately 260 students in grades kindergarten through eight and is sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis ("Mayor's Office").

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.

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 paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs 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.

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 and minor replacement costs 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	3 - 5 years
Textbooks	3 years

Taxes on Income – Indiana College Preparatory School, 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 COLLEGE PREPARATORY SCHOOL, 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 2016 tax year is open to audit for both federal and state purposes.

Reclassifications – Certain previously reported figures for 2016 have been reclassified for comparative purposes. These reclassifications had no impact on the reported change in net assets.

Subsequent Events – The School evaluated subsequent events through February 1, 2018, 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 \$933,378 as of June 30, 2017. Additionally, the cash and other current assets as of June 30, 2017 are insufficient to meet the existing liabilities coming due in the next fiscal year. 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 its operating expenses, and the continued support of its authorizing sponsor. During the 2017 – 2018 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.

Management has resolved to focus its efforts on retention of the School's current student population, and expansion of enrollment through a focused campaign. The School has also proactively communicated payment plans with its vendors, and is adhering to a budget which would allow for the terms of repayment to those vendors to be met.

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2017 and 2016**

**NOTE 3 - NOTE PAYABLE**

The note payable consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Note payable to the Indiana State Board of Education, payable \$25,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, advanced in February 2016	\$ 475,000	\$ 500,000
Less: current portion	<u>(50,000)</u>	<u>(25,000)</u>
Long-term portion	\$ <u>425,000</u>	\$ <u>475,000</u>

The note payable to the Indiana State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. The 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	\$ 50,000
2019	50,000
2020	50,000
2021	50,000
2022	50,000
Thereafter	<u>225,000</u>
	\$ <u>475,000</u>

**NOTE 4 - LEASE**

In 2015, the School entered into a lease with the Archdiocese of Indianapolis Properties, Inc. (Archdiocese) for 45,000 square feet of space located in Indianapolis, Indiana. The term of the lease is for a period of seven years. Rent is due quarterly. Base rent expense for the fiscal years ended June 30, 2017 and 2016 was \$295,000 and \$270,000, respectively. The Archdiocese has allowed the School to delay its payments for approximately two quarters to assist with cash flow constraints. The School owed the Archdiocese \$145,830 and \$135,000 as of June 30, 2017 and 2016, respectively.

The lease payments escalate over the term of the lease by an average of 8% annually. In accordance with accounting principles generally accepted in the United States of America, the School is required to record rent expense using the straight-line method over the term of the lease. The difference between recorded rent expense and the actual cash outflow is presented on the statements of financial position as deferred rent payable.

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 4 – LEASE, Continued**

Minimum future lease obligations are as follows for the years ending June 30:

2018	\$ 320,000
2019	347,000
2020	374,000
2021	376,000
2022	380,000

**NOTE 5 - RETIREMENT PLANS**

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan 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. For the years ended June 30, 2017 and 2016, the School contributed 7.5% of compensation for eligible teaching personnel to TRF. Should the School elect to withdraw from TRF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2016 (the latest year reported), TRF was more than 80% funded.

The School also offers a 403(b) defined contribution retirement plan. Non-teaching personnel and teachers who opt to not participate in TRF are eligible for benefits under the 403(b) plan. Under the 403(b) plan, the School contributes 7% of each employee's defined compensation.

For the years ended June 30, 2017 and 2016, retirement plan expense under both plans was \$61,419 and \$82,552, respectively.

**NOTE 6 - COMMITMENTS**

The School operates under a charter granted by the Mayor's Office. As the sponsoring organization, the Mayor's Office exercises certain oversight responsibilities. The charter agreement remains in effect until June 30, 2022 and is renewable by mutual consent. The Mayor's Office assesses a fee equal to 1% of the basic tuition support received by its sponsored schools that have been operating for four or more years. Since the School is in its second year of operations, no fees were assessed for the years ended June 30, 2017 or 2016.

The School entered into an agreement with ICAN Schools, a nonprofit management company, to provide legal, financial, and other management support services. The agreement is in effect through June 30, 2022. Management fees are calculated as 18% of total revenues received from Federal and State sources. The fee paid in 2016 was calculated using all 2016 revenue and support as well as the \$174,000 planning grant received in 2015. The total management fee paid to ICAN Schools by the School for the years ended June 30, 2017 and 2016 was \$454,856 and \$540,203, respectively.

**INDIANA COLLEGE PREPARATORY SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 7 - RISKS AND UNCERTAINTIES**

The School provides educational instruction services to families residing in Marion 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, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at PNC Bank and are insured up to the FDIC insurance limit.

**NOTE 8 - FUNCTIONAL EXPENSE REPORTING**

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

**INDIANA COLLEGE PREPARATORY SCHOOL, 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 as listed below:

Supplemental Audit Report of Indiana College Preparatory School, 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*.