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July 12, 2018

Charter School Board  
Ace Preparatory, Inc.  
5326 Hillside Ave.,  
Indianapolis, IN 46220


We have reviewed the report prepared by Ace Preparatory, Inc. and opined upon by CliftonLarsonAllen LLP, Independent Public Accountants, for the period February 12, 2015 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Ace Preparatory, 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 findings in the report on pages 16 through 20. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings.

In our opinion, CliftonLarsonAllen LLP 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 Ace Preparatory, 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

**ACE PREPARATORY, INC.**

**FINANCIAL STATEMENTS**

**PERIOD FROM INCEPTION (FEBRUARY 12, 2015)  
TO JUNE 30, 2017**

**ACE PREPARATORY, INC.  
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**ACE PREPARATORY, INC.  
OTHER REPORT  
PERIOD FROM INCEPTION (FEBRUARY 12, 2015) TO JUNE 30, 2017**

The report presented herein was prepared in addition to another official report prepared for ACE Preparatory, Inc. as listed below:

Supplemental Audit Report of ACE Preparatory, 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*.

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
ACE Preparatory, Inc.  
Indianapolis, Indiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of ACE Preparatory, Inc. (an Indiana corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows from the initial period of inception (February 12, 2015) through June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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.

Board of Directors  
ACE Preparatory, Inc.

***Opinion***

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2018, on our consideration of ACE Preparatory, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ACE Preparatory, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ACE Preparatory, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Indianapolis, Indiana  
January 28, 2018

**ACE PREPARATORY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2017**

**ASSETS**

Cash	\$ 7,798
Accounts receivable	10,000
Grants receivable	14,696
Prepaid expense	7,438
Property and equipment, net	<u>115,511</u>
Total assets	<u>\$ 155,443</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 11,022
Accrued expenses and other liabilities	24,539
Deferred revenue	58,019
Related party - line of credit	<u>13,001</u>
Total liabilities	106,581

**NET ASSETS**

Unrestricted	<u>48,862</u>
Total net assets	<u>48,862</u>

Total liabilities and net assets	<u>\$ 155,443</u>
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*See accompanying Notes to Financial Statements.*

**ACE PREPARATORY, INC.**  
**STATEMENT OF ACTIVITIES**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

**REVENUE AND SUPPORT**

Contributions and donations	\$ 103,710
State grant revenue	236,355
Grant revenue	254,077
School breakfast and lunch grant	14,242
Charter school grant revenue	202,355
Other income	120,170
Total revenue and support	<u>930,909</u>

**EXPENSES**

Program services expense	709,015
Support services expense	173,032
Total expenses	<u>882,047</u>

**CHANGE IN NET ASSETS**

48,862

Net assets - beginning of period

-

**NET ASSETS - END OF PERIOD**

\$ 48,862

*See accompanying Notes to Financial Statements.*

**ACE PREPARATORY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

	Program Services	Supporting Services	Total
Salaries and benefits expense	\$ 276,590	144,033	\$ 420,623
Materials and supplies expense	36,019	-	36,019
Utilities expense	25,034	-	25,034
Repairs and maintenance expense	34,255	-	34,255
Depreciation expense	36,289	-	36,289
Training and professional services expense	65,999	-	65,999
Technology expense	4,170	-	4,170
Software expense	16,027	-	16,027
Services and fees expense	5,446	-	5,446
Outsourcing expense	-	26,126	26,126
Insurance expense	23,762	-	23,762
Bank fees expense	4,109	-	4,109
Rent expense	6,120	-	6,120
In-kind rent expense	108,316	-	108,316
Interest expense	843	-	843
Student expense	34,844	-	34,844
Marketing expense	30,299	1,373	31,672
Accounting expense	-	1,500	1,500
Other miscellaneous expense	893	-	893
Total expenses by function	<u>\$ 709,015</u>	<u>\$ 173,032</u>	<u>\$ 882,047</u>

See accompanying Notes to Financial Statements.

**ACE PREPARATORY, INC.**  
**STATEMENT OF CASH FLOWS**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 48,862
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	36,289
Effects of changes in operating assets and liabilities:	
Accounts receivable	(10,000)
Grants receivable	(14,696)
Prepaid expense	(7,438)
Accounts payable	11,022
Accrued expenses and other liabilities	24,539
Deferred revenue	58,019
Net cash provided by operating activities	<u>146,597</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	(151,800)
Net cash used in investing activities	<u>(151,800)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Advances on related party line of credit, net	13,001
Net cash provided by financing activities	<u>13,001</u>
<b>NET INCREASE IN CASH</b>	7,798
<b>CASH - BEGINNING OF PERIOD</b>	<u>-</u>
<b>CASH - END OF PERIOD</b>	<u><u>\$ 7,798</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>	
Interest paid	<u><u>\$ 843</u></u>

See accompanying Notes to Financial Statements.

**ACE PREPARATORY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

ACE Preparatory, Inc. (ACE Prep, the Academy) is a nonprofit organization. The purposes for which ACE Prep is organized are to educate students in Kindergarten through Grade 5 through the operation of ACE Preparatory Academy Charter School ("ACE Prep"), preparing them for school success and lives of opportunity through rigorous academics, positive character development, and excellence.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Cash**

ACE Prep considers all demand accounts to be cash.

**Accounts Receivables**

Accounts receivable represent the uncollected portion of funds from the sublease agreement for facility space. Management has deemed these amounts to be fully collectible within one year.

**Grants Receivables**

Grants receivable represent the uncollected portion of funds from grants awarded to ACE Prep. Management has deemed these amounts to be fully collectible within one year.

**Property and Equipment**

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three years for computers and five years for textbooks and furniture and fixtures. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2017.

**ACE PREPARATORY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Revenue**

The deferred revenue consists of unearned revenue which was the result of current year overpayment of funds by the State of Indiana Department of Education related to an over estimation of the student population. These funds have not been utilized or expended for program purposes as June 30, 2017. Such funds are designated to be used or refunded to the State of Indiana during the subsequent fiscal year.

**Net Assets**

Net assets of the Academy and changes therein are classified and reported as follows:

*Unrestricted net assets*—Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets*—Net assets subject to donor-imposed stipulations that will be met either by actions of the Academy and/or the passage of time. The Academy had no temporarily restricted net assets at June 30, 2017.

*Permanently restricted net assets*—Net assets subject to donor-imposed stipulations that they be maintained permanently by the Academy. Generally, the donors of these assets permit the Academy to use all or part of the income earned on related investments for general or specific purposes. The Academy had no permanently restricted net assets at June 30, 2017.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service expenses and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions and donations, as well as grant revenues are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

*Contributions and Donations* – The Academy reports gifts of cash and other assets from various organizations and private donors as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

*State Grant Revenue* – The Academy receives monies from the state Department of Education for various expenses based on enrollment.

*Grant Revenue* – The Academy receives monies from private organizations as a direct recipient of the grant.

*School Breakfast and Lunch Grant* – The Academy receives monies from the State of Indiana for reimbursement of free breakfast and lunch programs.

*Charter School Grant Revenue* – The Academy receives federal grant monies for the planning and implementation phases of the Academy as a charter school.

**ACE PREPARATORY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue and Revenue Recognition (Continued)**

*Other Income* – The Academy records miscellaneous income that is non-recurring or related to sub-lease agreements as Other Income. For the period ended June 30, 2017, Other Income consisted primarily of the in-kind donation of rent (see Note 5).

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. See Note 5 for discussion of in-kind facility usage, no other significant contributions of such goods or services were received for the period ended June 30, 2017.

**Advertising Costs**

Advertising costs are expensed as incurred and approximated \$31,672 during the period ended June 30, 2017.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Taxes**

ACE Prep is organized as an Indiana nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Academy and recognize a tax liability if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Academy, and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The U.S. federal and state income tax returns of the Academy are subject to examination by the IRS and state taxing authorities

**ACE PREPARATORY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Guidance**

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued amended guidance regarding the presentation of financial statements of not-for-profit entities to improve the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The guidance requires information regarding liquidity and the financial assets available to satisfy near-term demands for cash, requires inclusion of a statement of functional expenses, and alters the net asset classifications. The guidance also requires both qualitative and quantitative disclosures regarding the types of costs that can be allocated and management and general activities. The guidance will initially be applied using a retrospective approach. The standard will be effective for the entity for annual periods beginning after December 15, 2018, and early adoption is permitted and encouraged. Management is evaluating the impact of the amended financial statement presentation guidance on the entity's financial statements.

Revenue from Contracts with Customers

In May 2014, the (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for periods beginning after December 15, 2016. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

**ACE PREPARATORY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2017:

Furniture and fixtures	\$ 148,489
Textbooks	1,445
Computers	1,866
Total	<u>151,800</u>
Less: accumulated depreciation and amortization	36,289
Total property and equipment	<u><u>\$ 115,511</u></u>

Depreciation and amortization expense totaled \$36,289 for the period ended June 30, 2017.

**NOTE 3 RELATED PARTY – LINE OF CREDIT**

The Academy has a \$193,000 revolving line of credit with a bank, of which \$13,001 was outstanding at June 30, 2017. An employee of the bank served on the Board of Directors of the Academy during the period ended June 30, 2017. Borrowings under the line bear interest at the bank's prime rate (3.75% at June 30, 2017) and is secured by accounts receivable. Accrued interest and principal are due at maturity. Original maturity date of the line of credit was December 25, 2017, but was extended on December 25, 2017, to February 25, 2018. The line of credit is subject to the terms of a credit agreement, which includes certain financial and non-financial covenants. Management believes the Academy was in compliance with the terms of the agreement at June 30, 2017.

**NOTE 4 LEASES**

Lease Expense

In July 2015, ACE Prep entered into a 10-year lease agreement for its facility that commenced July 2016 and continues through June 2026. Additionally, unless notice is given by either party, the lease will automatically renew for one five year term. There are four components to payment of this lease: Debt Service payment, Lease payment, Facility Service payment, and Equity payment. The Equity payment is equal to \$150,000 and is a one time fee. This payment was made during the period ended June 30, 2017, and was used to purchase equipment for the Academy. The remaining three components of the payment fluctuate throughout the lease term but approximated \$13,437, \$672, and \$2,000, respectively, monthly for the period ended June 30, 2017. Due to dissolution of the lessor, rent expense under this agreement for the period of inception through June 30, 2017 approximated \$4,016 (see Note 5). The lease agreement is subject to certain financial and non-financial covenants. Management believes the Academy was in compliance with the terms of the agreement at June 30, 2017, except for a covenant regarding a 45 day compensating cash balance. While technically, the Academy is not in compliance with the covenant, there are sufficient available amounts on the line of credit.

As part of the lease, ACE Prep has an option to purchase the building. ACE Prep can exercise this right at any time after 24 months and prior to the 85<sup>th</sup> month during the lease term.

**ACE PREPARATORY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 LEASES (CONTINUED)**

Future minimum lease payments remaining under this operating lease are as follows:

<u>Year ending June 30.</u>	
2018	\$ 259,828
2019	282,330
2020	282,829
2021	283,338
2022	283,338
Thereafter	1,133,353
Total minimum lease payments	<u>\$ 2,525,016</u>

ACE Prep entered into a copier lease under an operating lease agreement in July 2016 that extends through 2019 with the option to renew at twelve month extensions.

Future minimum lease payments are as follows:

<u>Year ending June 30.</u>	
2018	\$ 3,808
2019	3,808
Thereafter	-
Total minimum lease payments	<u>\$ 7,616</u>

Rental expense for the period of inception (February 12, 2015) through June 30, 2017 totaled \$4,126.

Lease Income

ACE Prep subleases a portion of the facility under an operating lease agreement. The lease commenced June 9, 2017, and is scheduled to continue through July 8, 2018. Monthly payments due under this arrangement are \$8,000. The sublessor did not occupy the space until July 2017, as such Management decided to forego the first month's rent under the lease agreement. Income received under this lease was \$10,000 for the period ended June 30, 2017, and is included in Other Income in the statement of activities.

Future minimum lease income under this lease is as follows:

<u>Year ending June 30.</u>	
2018	\$ 159,000
2019	8,000
Thereafter	-
Total minimum lease income	<u>\$ 167,000</u>

**ACE PREPARATORY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 IN-KIND FACILITY USAGE**

ACE Prep entered into a lease agreement for facility space (see Note 4). The lessor dissolved in late 2016 and two outside lenders took ownership of the facility shortly thereafter. In the time since lessor dissolution, ACE Prep has been working with the lenders to reach a new lease agreement. As of issuance of these financial statements, a new agreement has not been executed and the original lease remains in force. The lenders waived ACE Prep's responsibility to make lease payments for the period ended June 30, 2017. Accordingly, the Academy recorded \$108,316, the amount that would have been paid to the original lessor, as in-kind contributions in Other Income on the statement of activities.

**NOTE 6 SUBSEQUENT EVENTS**

We have evaluated subsequent events through January 28, 2018, the date the consolidated financial statements were available to be issued. The following item should be disclosed.

On August 5, 2017, ACE Prep entered into a sublease of the facility with The Well Church. The term of the agreement commences August 6, 2017, and terminates July 29, 2018. In addition to a weekly rental fee, 10 hours a month of maintenance shall be performed by an individual associated with the church.

ACE Prep is currently in renegotiations for the facility lease at 5326 Hillside, Indianapolis, Indiana, the current location of the Academy. Draft terms include a lease extending through June 30, 2019, with base rent of \$18,000 per month. Additionally upon lease execution, a deposit will be made with the landlord of approximately \$42,000 to be maintained in a cash collateral account. Funds would be available to the landlord as security for the performance of all covenants. Additionally, the landlord would be able to deduct funds from this account to pay for any necessary capital improvements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors and Management  
ACE Preparatory, Inc.  
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ACE Preparatory, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statement of activities, statement of functional expenses, and cash flows from the period of inception (February 12, 2015) through June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ACE Preparatory, Inc.'s (the Academy) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACE Preparatory, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of ACE Preparatory, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. See findings 2017-001, 2017-002, and 2017-003.

### **Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ACE Preparatory, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings. See findings 2017-003, 2017-004 and 2017-005.

### **ACE Preparatory, Inc.'s Response to Findings**

ACE Preparatory, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings. ACE Preparatory, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Indianapolis, Indiana  
January 28, 2018

**ACE PREPARATORY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

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**Section II – Financial Statement Findings**

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**2017 – 001**

Type of Finding:

- Material Weakness: Internal Control over Financial Reporting

**Condition:** Material adjusting entries and reclassifying journal entries were identified during the conduct of the audit to properly state the following accounts in the financial statements: adjusting entries – accounts receivable, grants receivable, prepaid expenses, accounts payable, accrued liabilities, deferred revenue, line of credit, revenue, and expense.

**Criteria or specific requirement:** Management of the Academy should maintain policies, procedures and internal controls sufficient to capture all information necessary to present its' financial statements in accordance with accounting principles generally accepted in the United States.

**Context:** During our audit of these financial statement areas, we noted certain balances were incorrect.

**Effect:** Material adjustments were required to fairly state the Academys' financial statements.

**Cause:** Management's review of these financial statement areas did not identify the misstatements timely resulting in incorrect balances. Procedures and internal controls of the Academy failed to prevent or detect these errors.

**Recommendation:** We recommend that management review controls related to financial statement preparation review at the end of each period. Financial statement preparation should include a review of reconciliations and balances to ensure that financial statement line items are properly stated and classified. Internally prepared financial statements should also be reviewed by members of management outside the finance department on a monthly basis.

**Views of responsible officials and planned corrective actions:**

The Academy's management team takes the reporting of accurate and reliable financial documents very seriously and strives to uphold the duty of preparing reports that are properly stated and classified. To that end, internal controls will be reviewed and tightened and any necessary updates to the Financial Handbook will be brought before the Board of Directors for discussion and approval. Furthermore, internal management, consistent of the Head of School and Manager of Operations, will review all reconciliations and balances on a monthly basis and then secure a second check by a contracted outside financial consultant before then sharing with the Board's Executive Committee and Treasurer. The full Board will receive, and review, monthly financial documents as a standing agenda item at all public board meetings.

**ACE PREPARATORY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

**2017 – 002**

Type of Finding:

- Material Weakness: Segregation of Duties

**Condition:** Due to the size of the organization, the Head of the Academy has access to perform functions that would normally be segregated.

**Criteria or specific requirement:** The Head of the Academy has the ability to open new accounts, make transfers, sign checks and has access to the blank check stock. The same individual can change payroll files, reviews and approves payroll transactions, and records the payroll entry. The same individual can add a vendor, approve payments, write checks, and change account payable files for vendors, including credit card expenditures. The same individual can initiate, approve, pay, and dispose of capital assets. The same individuals can initiate, record, approve journal entries, and adjust a closed period.

**Context:** During our understanding of the control environment, we noted the absence of segregation of duties.

**Effect:** The lack of segregation of certain duties exposes the Academy to the potential of fraud.

**Cause:** The lack of segregation of certain duties exposes the Academy to the potential of fraud.

**Recommendation:** We recommend that management review controls related to certain functionalities within the Academy and provide greater segregation of duties or compensating controls.

**Views of responsible officials and planned corrective actions:**

For the period of operation analyzed within the timeline of this audit, the Academy averaged five (5) employees as a direct result of lower than anticipated enrollment in our opening year, yet at no time was lack of capacity used as an excuse – the intention to always operate in a fiscally sound and responsible manner was upheld by management and expected by Governance. The finding reports that the Head of School has access to perform functions that should be segregated, however it's important to note that that the Head of School and Manager of Operations do divide duties internally to ensure division of responsibilities between the positions happen as transparently and efficiently as possible. Moving forward, a contracted, outside financial consultant will be added to the financial management team who will allow for greater segregation of duties. Additionally, as the Academy grows by one grade level per year through 2020, the organizational chart will have the flexibility to expand in a manner that addresses these concerns on a long-term, permanent basis.

**ACE PREPARATORY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

**2017 – 003**

Type of Finding:

- **Material Weakness:** Calculation and review of monthly reconciliation of accounts receivable, accounts payable and accrued liabilities.

**Condition:** There is no process in place to calculate, reconcile and review accounts receivable, accounts payable, and accrued liabilities on a monthly basis or at year-end.

**Criteria or specific requirement:** Per the Financial Policy handbook, monthly reconciliations are to be performed and reviewed on accounts such as accounts receivable, accounts payable and accrued liabilities.

**Context:** During our audit, we noted that monthly reconciliation of accounts receivable, accounts payable and accrued liabilities were not being prepared and, accordingly, a subsequent review and approval was also not completed.

**Effect:** Account balances in accounts receivable, accounts payable and accrued liabilities were materially incorrect.

**Cause:** Lack of monthly preparation and review of accrual reconciliations can lead to incorrect account balances.

**Recommendation:** We recommend that a monthly reconciliation of all asset and liability accounts be performed and reviewed to ensure the proper account balances.

**Views of responsible officials and planned corrective actions:**

The Academy strives to maintain accurate and reliable financial statements, uphold GAAP policies, and implement the Financial Handbook with fidelity. At month end, all accounts receivable, accounts payable, prepaids, differed revenue, and accrued liabilities will be reconciled and reviewed to ensure balances reflect monthly activity. Furthermore, internal management, consistent of the Head of School and Manager of Operations, will review all reconciliations and balances on a monthly basis and then secure a second check by a contracted outside financial consultant before then sharing with the board's Executive Committee and Treasurer.

**ACE PREPARATORY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

**2017 – 004**

Type of Finding:

- State Board of Accounts compliance finding

**Condition:** The Academy did not retain receipt documents for all receipts as required.

**Criteria or specific requirement:** The State of Indiana *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*, Part 8 requires that receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment.

**Context:** During our audit, we noted that receipts were not issued for thirty-seven (37) of sixty (60) receipts tested.

**Effect:** Proper supporting documentation of receipts is not maintained.

**Cause:** Lack of preparation of cash receipt documents.

**Recommendation:** We recommend that the cash receipt procedures be reviewed to ensure that appropriate documentation is retained in support of all cash receipt transactions.

**Views of responsible officials and planned corrective actions:**

In accordance with SBOA requirements, the Academy will issue and record duplicate, numbered receipts at the time of transaction and provide to the person making payment.

**2017 – 005**

Type of Finding:

- State Board of Accounts compliance finding

**Condition:** The Academy did not retain appropriate supporting documentation for expenses as required.

**Criteria or specific requirement:** The State of Indiana *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*, Part 8 requires that all accounting transactions must be supported by adequate documentation. Transaction entries are supported by an explanation of the reason for the entry and must show an evidence of supervisory approval.

The State of Indiana *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*, Part 2 further requires that the Accounts Payable Voucher (Form 523) form must be used in accordance with the following conditions: Charter schools may not draw a warrant or check for payment of a claim unless; (1) there is a fully itemized invoice or bill for the claim; (2) the invoice or bill is approved by the officer or person receiving the goods and services; (3) the invoice or bill is filed with the fiscal officer; (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and (5) payment of the claim is allowed by the board having jurisdiction over the allowance of the payment of the claim.

**ACE PREPARATORY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017**

**Context:** During our audit, we noted inadequate supporting documentation for five (5) of the sixty (60) disbursements tested. We further noted insufficient documentation to support that Accounts Payable Vouchers (Form 523) were used as required in thirty-three (33) instances of sixty (60) transactions tested. Additionally, the Academy could not provide documentation to support that expenditures are reviewed and approved by the board for expenditures occurring after March 2017. Twenty (20) instances of noncompliance regarding Board approval of expenditures were noted during inspection of a sample of sixty (60) transactions.

**Effect:** Proper supporting documentation of cash disbursements is not maintained.

**Cause:** Lack of preparation of required documents in support of cash disbursements.

**Recommendation:** We recommend that the purchasing and cash disbursement procedures be reviewed to ensure that appropriate documentation is retained in support of all expense and cash disbursement transactions.

**Views of responsible officials and planned corrective actions:**

Processes pertaining to fully itemizing receipts will be developed and/or refined to fully comply with all requirements for cash disbursement transactions, as aligned to Form 523 compliance factors.