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July 12, 2018

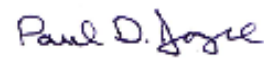
Charter School Board
Seven Oaks Classical School, Inc.
200 E. Association Street
Ellettsville, IN 47429

We have reviewed the report prepared by Seven Oaks Classical 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* the financial statements included in the report present fairly the financial condition of Seven Oaks Classical 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.

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 Seven Oaks Classical 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

SEVEN OAKS CLASSICAL SCHOOL, 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
Seven Oaks Classical School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Seven Oaks Classical School, Inc., which comprise the statement of financial position as of June 30, 2017, the related statements of activities and change in net deficit, 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 Seven Oaks Classical School, Inc. as of June 30, 2017, and the changes in its net deficit, 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 initial "D".

Indianapolis, Indiana
April 18, 2018

SEVEN OAKS CLASSICAL SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 67,805
Grants receivable	14,805
	82,610
<i>Total current assets</i>	<i>82,610</i>

PROPERTY AND EQUIPMENT

Land	297,500
Building and improvements	2,270,880
Less: accumulated depreciation	(41,848)
	2,526,532
<i>Property and equipment, net</i>	<i>2,526,532</i>

TOTAL ASSETS

\$ 2,609,142

LIABILITIES AND NET DEFICIT

CURRENT LIABILITIES

Current portion of notes payable	\$ 136,809
Accounts payable and accrued expenses	104,173
Refundable advances	29,625
	270,607
<i>Total current liabilities</i>	<i>270,607</i>

NOTES PAYABLE, NET OF CURRENT PORTION

2,642,613

Total liabilities

2,913,220

NET DEFICIT, UNRESTRICTED

(304,078)

TOTAL LIABILITIES AND NET DEFICIT

\$ 2,609,142

SEVEN OAKS CLASSICAL SCHOOL, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET DEFICIT
For the Year Ended June 30, 2017

REVENUE AND SUPPORT

State education support	\$ 1,018,024
Grant revenue	130,291
Other income	<u>58,719</u>
 <i>Total revenue and support</i>	 <u>1,207,034</u>

EXPENSES

Program services	1,266,633
Management and general	<u>235,288</u>
 <i>Total expenses</i>	 <u>1,501,921</u>

CHANGE IN NET DEFICIT (294,887)

NET DEFICIT, BEGINNING OF YEAR (9,191)

NET DEFICIT, END OF YEAR \$ (304,078)

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

SEVEN OAKS CLASSICAL SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES			
Salaries and wages	\$ 617,206	\$ 128,281	\$ 745,487
Employee benefits	159,284	7,342	166,626
Staff development	2,109	-	2,109
Professional services	74,227	81,498	155,725
Equipment	24,007	-	24,007
Classroom and office supplies	83,610	16,478	100,088
Occupancy	141,498	-	141,498
Depreciation	41,848	-	41,848
Information technology	34,069	-	34,069
Interest	51,267	-	51,267
Insurance	29,823	-	29,823
Other	<u>7,685</u>	<u>1,689</u>	<u>9,374</u>
<i>Total functional expenses</i>	<u><u>\$ 1,266,633</u></u>	<u><u>\$ 235,288</u></u>	<u><u>\$ 1,501,921</u></u>

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

SEVEN OAKS CLASSICAL SCHOOL, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

OPERATING ACTIVITIES

Change in net deficit	\$ (294,887)
Adjustments to reconcile change in net deficit to net cash used in operating activities:	
Depreciation	41,848
Change in certain assets and liabilities:	
Grants receivable	(14,805)
Accounts payable and accrued expenses	84,020
Refundable advances	<u>29,625</u>
<i>Net cash used in operating activities</i>	<u>(154,199)</u>

INVESTING ACTIVITIES

Purchases of property and equipment	<u>(1,768,380)</u>
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FINANCING ACTIVITIES

Proceeds from note payable	2,000,000
Principal payments on notes payable	<u>(20,578)</u>
<i>Net cash provided by financing activities</i>	<u>1,979,422</u>

NET CHANGE IN CASH

56,843

CASH, BEGINNING OF YEAR

10,962

CASH, END OF YEAR

\$ 67,805

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 34,075
Purchases of property and equipment financed through note payable	800,000

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

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Seven Oaks Classical School, 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 established under Indiana Code 20-24 and sponsored by Grace College. The School commenced operations with the 2016-17 academic year and serves students in 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.

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 significant 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.

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 included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and 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 building and improvements are depreciated over 30 years.

Taxes on Income – Seven Oaks Classical 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 year ended June 30, 2017, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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. Since the School commenced operations in 2016, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through April 18, 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 - NOTES PAYABLE

Notes payable at June 30, 2017 was comprised of:

Note payable to the Indiana State Board of Education, payable \$100,000 semi-annually (January 1 and July 1) plus interest at 1% per annum until July 2027. Payments commence January 1, 2018.	\$ 2,000,000
Note payable to IFF, payable \$6,484 monthly, including interest at 5.375% per annum until December 2021.	<div style="text-align: right;"> <u>779,422</u> 2,779,422 </div>
Less: current portion	<div style="text-align: right;"> <u>(136,809)</u> </div>
Long-term portion	\$ <u>2,642,613</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.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 2 - NOTES PAYABLE, Continued

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

2018	\$	136,809
2019		238,836
2020		240,976
2021		243,214
2022		819,587
Thereafter		<u>1,100,000</u>
	\$	<u>2,779,422</u>

NOTE 3 - RETIREMENT PLAN

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. Under the plan, the School contributes 7.5% of compensation for electing teaching faculty 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 7.5% of each employee's defined compensation.

Total contribution to TRF were \$2,239 during the year ended June 30, 2017. The 403(b) plan was implemented after June 30, 2017, and therefore no expense was incurred under this plan.

NOTE 4 - COMMITMENTS

The School operates under a charter granted by Grace College. As the sponsoring organization, Grace College exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Grace College an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were \$25,540 for the year ended June 30, 2017. The charter remains in effect until September 2023 and is renewable thereafter by mutual consent.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 5 - RISKS AND UNCERTAINTIES

The School provides education instruction services to families primarily residing in Ellettsville, Indiana and greater Monroe County, 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. In addition, deposits maintained at Owen County State Bank are insured up to the FDIC insurance limit.

NOTE 6 - PRIOR PERIOD FINANCIAL ACTIVITY

Prior to the School's initial year of operations, it received income in the form of contributions of approximately \$50,000 to fund necessary startup costs. The School used these funds to purchase textbooks and incurred other necessary expenses. As of July 1, 2016, the School had a cash balance of \$10,962, an accounts payable balance of \$20,153, and a net deficiency balance of \$9,191.

NOTE 7 - 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 deficit. Accordingly, certain expenses have been allocated between program services and management and general activities.

SEVEN OAKS CLASSICAL SCHOOL, 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 Seven Oaks Classical 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*.