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November 19, 2018

Charter School Board
Central Indiana Military Academy, Inc.
d/b/a Anderson Preparatory Academy
101 W 29th St.
Anderson, IN 46016

We have reviewed the report prepared by Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy as of June 30, 2018 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 Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy, was prepared in accordance with the guidelines established by the State Board of Accounts.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Central Indiana Military Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and change in net assets, 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 Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy as of June 30, 2018 and 2017, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and connected, with a prominent loop at the end of the word.

November 13, 2018
Indianapolis, Indiana

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 760,359	\$ 699,209
Grants receivable	53,721	47,326
Prepaid expenses	<u>29,128</u>	<u>47,426</u>
<i>Total current assets</i>	<u>843,208</u>	<u>793,961</u>
PROPERTY AND EQUIPMENT		
Land	320,000	320,000
Buildings and improvements	3,137,677	3,143,177
Furniture and equipment	2,280,886	2,108,669
Textbooks	143,963	143,963
Vehicles	57,279	41,750
Less: accumulated depreciation	<u>(2,568,118)</u>	<u>(2,105,831)</u>
<i>Property and equipment, net</i>	<u>3,371,687</u>	<u>3,651,728</u>
TOTAL ASSETS	<u><u>\$ 4,214,895</u></u>	<u><u>\$ 4,445,689</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 231,399	\$ 142,443
Current portion of capital lease obligations	46,149	82,308
Accounts payable and accrued expenses	464,539	334,047
Refundable advances	<u>840</u>	<u>3,046</u>
<i>Total current liabilities</i>	<u>742,927</u>	<u>561,844</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	1,577,095	1,549,318
Capital lease obligations, net of current portion	<u>26,411</u>	<u>226,416</u>
<i>Total long-term liabilities</i>	<u>1,603,506</u>	<u>1,775,734</u>
<i>Total liabilities</i>	<u>2,346,433</u>	<u>2,337,578</u>
NET ASSETS, UNRESTRICTED		
Undesignated	301,430	374,951
Invested in property and equipment, net of related debt	1,490,633	1,651,243
Board designated net assets	<u>76,399</u>	<u>81,917</u>
<i>Total net assets</i>	<u>1,868,462</u>	<u>2,108,111</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,214,895</u></u>	<u><u>\$ 4,445,689</u></u>

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

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State education support	\$ 5,168,152	\$ 5,461,128
Grant revenue	1,173,937	1,222,702
Student fees	167,626	200,912
Contributions	26,284	33,319
In-kind contribution of capitalized equipment	-	280,703
Fundraising and other income	<u>211,317</u>	<u>246,610</u>
<i>Total revenue and support</i>	<u>6,747,316</u>	<u>7,445,374</u>
EXPENSES		
Program services	5,662,020	5,719,895
Management and general	<u>1,324,945</u>	<u>1,304,082</u>
<i>Total expenses</i>	<u>6,986,965</u>	<u>7,023,977</u>
CHANGE IN NET ASSETS	(239,649)	421,397
NET ASSETS, BEGINNING OF YEAR	<u>2,108,111</u>	<u>1,686,713</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,868,462</u></u>	<u><u>\$ 2,108,111</u></u>

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

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

	2018			2017		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 3,153,084	\$ 647,297	\$ 3,800,381	\$ 3,213,157	\$ 666,789	\$ 3,879,946
Employee benefits	638,506	152,017	790,523	641,916	147,411	789,327
Depreciation	512,834	-	512,834	356,727	-	356,727
Professional services	302,946	208,766	511,712	265,288	178,201	443,489
Classroom, kitchen and office supplies	322,115	29,998	352,113	362,896	29,011	391,907
Occupancy	343,947	-	343,947	410,372	-	410,372
Property rental and maintenance	201,566	-	201,566	249,952	-	249,952
Authorizer oversight fees	-	117,693	117,693	-	123,562	123,562
Insurance	-	116,982	116,982	-	118,939	118,939
Interest	92,393	-	92,393	95,924	-	95,924
Other	32,020	47,104	79,124	48,935	37,519	86,454
Staff development	25,465	5,088	30,553	54,134	2,650	56,784
Loss on disposal of property and equipment	21,118	-	21,118	-	-	-
Transportation	16,026	-	16,026	20,594	-	20,594
<i>Total functional expenses</i>	<u>\$ 5,662,020</u>	<u>\$ 1,324,945</u>	<u>\$ 6,986,965</u>	<u>\$ 5,719,895</u>	<u>\$ 1,304,082</u>	<u>\$ 7,023,977</u>

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

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (239,649)	\$ 421,397
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	512,834	356,727
(Gain) loss on disposal of property and equipment	21,118	(2,570)
In-kind contribution of capitalized equipment	-	(280,703)
Changes in certain assets and liabilities:		
Grants receivable	(6,395)	(47,326)
Prepaid expenses	18,298	(3,589)
Accounts payable and accrued expenses	130,492	38,492
Refundable advances	<u>(2,206)</u>	<u>(16,439)</u>
 <i>Net cash provided by operating activities</i>	 <u>434,492</u>	 <u>465,989</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(253,911)</u>	<u>(285,184)</u>
FINANCING ACTIVITIES		
Principal reduction of capital lease obligations	(236,164)	(65,912)
Proceeds from notes payable	300,454	-
Principal repayment of notes payable	<u>(183,721)</u>	<u>(135,648)</u>
 <i>Net cash used in financing activities</i>	 <u>(119,431)</u>	 <u>(201,560)</u>
 NET CHANGE IN CASH	 61,150	 (20,755)
 CASH, BEGINNING OF YEAR	 <u>699,209</u>	 <u>719,964</u>
 CASH, END OF YEAR	 <u>\$ 760,359</u>	 <u>\$ 699,209</u>
 SUPPLEMENTAL INFORMATION		
Property and equipment obtained under capital lease obligations	\$ -	\$ 194,800
Property and equipment obtained via in-kind contribution	-	280,703
Cash paid for interest	92,393	95,924

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

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy (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 serving approximately 760 students in grades kindergarten through twelve and is sponsored by Ball State University.

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.

Board Designated Net Assets – The Board designated net assets at both June 30, 2018 and 2017 for purposes related to various School academic and sports programs. Board designated net assets totaled \$76,399 and \$81,917, respectively.

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. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Contributions and Fees – The School receives income from contributions, student fees, and fundraising events that support certain school activities. These receipts are reported as restricted support in that they are received with stipulations that limit their use. When a donor restriction expires, that is, when the purpose or time 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.

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Central Indiana Military Academy, Inc. has received a determination from the U.S. Internal Revenue Service 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, 2018 and 2017, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2014 are open to audit for both federal and state purposes.

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:

Building and improvements	5 to 40 years
Furniture and equipment	3 years
Textbooks	4 years
Vehicles	5 years

Reclassification – Temporarily restricted net assets for the year ended June 30, 2017 have been reclassified as board designated net assets. The net assets were erroneously considered temporarily restricted but were not donor restricted funds. This reclassification did not affect total net assets as of June 30, 2017.

Subsequent Events – The School evaluated subsequent events through November 13, 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 require.

NOTE 2 - REVOLVING LINE OF CREDIT

The School has a \$100,000 revolving line of credit to provide short-term financing, which is secured by all business assets. Bank advances on the credit line carry an interest rate of .75% above the lender's prime rate. There were no advances outstanding on the line of credit as of June 30, 2018 and 2017.

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 3 - NOTES PAYABLE

Notes payable were comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Mortgage loan payable to MainSource Bank, payable in monthly installments of \$4,460 including interest at 4.55% per annum through July 2021, secured by a mortgage on School facilities and all business assets	\$ 153,551	\$ -
Mortgage loan payable to MainSource Bank, payable in monthly installments of \$3,183 including interest at 4.20% per annum through June 2022, secured by a mortgage on School facilities and all business assets	105,654	-
Mortgage loan payable to MainSource Bank, payable in monthly installments of \$3,761 including interest at 4.85% per annum (adjustable annually beginning August 2019) through July 2026, secured by a mortgage on School facilities and all business assets	320,737	343,052
Mortgage loan payable to MainSource Bank, payable in monthly installments of \$4,214 including interest at 4.85% per annum (adjustable annually beginning September 2019) through July 2026, secured by a mortgage on School facilities and all business assets	337,232	370,327
Mortgage loan payable to MainSource Bank, payable in monthly installments of \$7,341 including interest at 4.85% per annum (adjustable annually beginning August 2019) through August 2026, secured by a mortgage on School facilities and all business assets	591,622	649,081
Mortgage loan payable to MainSource Bank, payable in monthly installments of \$3,224 including interest at 4.85% per annum (adjustable annually beginning September 2019) through March 2029, secured by a mortgage on School facilities and all business assets	<u>299,698</u>	<u>329,301</u>
	1,808,494	1,691,761
Less: current portion	<u>(231,399)</u>	<u>(142,443)</u>
Long-term portion	<u>\$ 1,577,095</u>	<u>\$ 1,549,318</u>

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 3 - NOTES PAYABLE, Continued

The MainSource Bank notes payable require the School to maintain a minimum debt service coverage ratio greater than 1.50 to 1.00. The bank waived this requirement for the year ended June 30, 2018.

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

2019	\$ 231,399
2020	242,614
2021	256,848
2022	173,351
2023	182,070
Thereafter	<u>722,212</u>
	<u>\$ 1,808,494</u>

NOTE 4 - LEASES

The School leases various items of equipment under capital leases. At June 30, 2018, the cost and accumulated depreciation relating to these assets were \$306,200 and \$149,433, respectively (\$764,519 and \$512,685, respectively, at June 30, 2017).

Minimum future lease payments as of June 30, 2018 under capital leases and the present value of the net minimum lease payments are as follows for the years ending June 30:

2019	\$ 48,596
2020	23,533
2021	3,912
Less: amount representing interest	<u>(3,482)</u>
	<u>\$ 72,559</u>

The School also leases various items of equipment under operating leases. Total expense under these operating leases was \$30,796 and \$34,444 for the years ended June 30, 2018 and 2017, respectively. None of the operating leases have terms extending beyond the following fiscal year.

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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, 2018 and 2017, 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, 2017 (the latest year reported), TRF was more than 80% funded.

All other employees are eligible to participate in a School-sponsored section 403(b) plan. Under this plan, the School contributes 6% of compensation, as defined in the plan document. Additional contributions may be made at the discretion of the Board of Directors. No discretionary contributions were made in 2018 or 2017. Retirement plan expense under both plans was \$231,637 and \$249,843 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 - 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 support. Payments under this charter agreement were \$117,693 and \$123,562 for the years ended June 30, 2018 and 2017, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

The School has contracted with a third party to provide network and technology services to the School. Under this contract, the School has committed to make annual payments of approximately \$75,000 through August 2020 with the option to purchase additional services for which the School is billed as services are provided. The School has the option to terminate the agreement with 30 days notice. Payments under this agreement were \$79,868 and \$79,512 for the years ended June 30, 2018 and 2017, respectively.

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Madison 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. Any changes in state or federal legislation could significantly impact 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, 2018, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at MainSource 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 statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program services and management and general.

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
OTHER REPORT
For the Year Ended June 30, 2018

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

Supplemental Audit Report of Central Indiana Military Academy, Inc.
d/b/a Anderson Preparatory Academy

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*.