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November 28, 2018


Charter School Board
Otwell Miller Academy, Inc.
9558 E County Rd 150 N.
Otwell, IN 47564

We have reviewed the report prepared by, Otwell Miller Academy, Inc. 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 Otwell Miller Academy, Inc. 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 Otwell Miller Academy, 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

OTWELL MILLER ACADEMY, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Year Ended June 30, 2018



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Otwell Miller Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Otwell Miller Academy, Inc., which comprise the statement of financial position as of June 30, 2018, the related statements of activities and change in net assets, 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 Otwell Miller Academy, Inc. as of June 30, 2018, and the changes in its net assets, 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 dark ink that reads "DONOVAN". The letters are cursive and slightly slanted to the right.

Indianapolis, Indiana
November 20, 2018

OTWELL MILLER ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 5,152
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PROPERTY AND EQUIPMENT

Furniture and equipment	10,015
Textbooks	45,313
Vehicles	70,000
Less: accumulated depreciation	<u>(19,921)</u>

<i>Property and equipment, net</i>	<u>105,407</u>
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TOTAL ASSETS

\$ 110,559

LIABILITIES AND NET DEFICIENCY

CURRENT LIABILITIES

Current portion of capital lease obligation	\$ 20,460
Accounts payable and accrued expenses	<u>86,874</u>

<i>Total current liabilities</i>	107,334
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LONG-TERM LIABILITIES

Capital lease obligation, net of current portion	<u>41,400</u>
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<i>Total liabilities</i>	148,734
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NET DEFICIENCY

(38,175)

TOTAL LIABILITIES AND NET ASSETS

\$ 110,559

OTWELL MILLER ACADEMY, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
For the Year Ended June 30, 2018

REVENUE AND SUPPORT	
State education support	\$ 407,316
Grant revenue	51,939
Contributions	
Related party contributions	69,175
In-kind contributions	22,000
Other contributions	51,328
Other income	<u>416</u>
<i>Total revenue and support</i>	<u>602,174</u>
 EXPENSES	
Program services	498,618
Management and general	<u>143,833</u>
<i>Total expenses</i>	<u>642,451</u>
 CHANGE IN NET ASSETS	 (40,277)
 NET ASSETS, BEGINNING OF YEAR	 <u>2,102</u>
 NET DEFICIENCY, END OF YEAR	 <u><u>\$ (38,175)</u></u>

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

OTWELL MILLER ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES			
Salaries and wages	\$ 343,799	\$ 95,376	\$ 439,175
Employee benefits	68,076	12,841	80,917
Professional services	6,370	16,536	22,906
Repairs and maintenance	9,769	-	9,769
Authorizer oversight fees	-	15,329	15,329
Classroom, kitchen, and office supplies	9,265	837	10,102
Occupancy	31,003	-	31,003
Depreciation	19,921	-	19,921
Information technology	4,594	-	4,594
Interest	-	445	445
Insurance	4,143	-	4,143
Other	1,678	2,469	4,147
	<u>1,678</u>	<u>2,469</u>	<u>4,147</u>
<i>Total functional expenses</i>	<u>\$ 498,618</u>	<u>\$ 143,833</u>	<u>\$ 642,451</u>

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

OTWELL MILLER ACADEMY, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

OPERATING ACTIVITIES

Change in net assets	\$ (40,277)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	19,921
Change in certain assets and liabilities:	
Accounts payable and accrued expenses	86,874
<i>Net cash provided by operating activities</i>	66,518

INVESTING ACTIVITIES

Purchases of property and equipment	(55,328)
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FINANCING ACTIVITIES

Principal payments on capital lease obligation	(8,140)
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NET CHANGE IN CASH

3,050

CASH, BEGINNING OF YEAR

2,102

CASH, END OF YEAR

\$ 5,152

SUPPLEMENTAL INFORMATION

Vehicles financed with capital lease	\$ 70,000
Cash paid for interest	445

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

OTWELL MILLER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Effective March 2017, the not-for-profit entity, Friends of Otwell Elementary, Ltd. (“Friends”), formed and incorporated a subsidiary, Otwell Miller Academy, Inc. (the “School”). The School is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana and operates a public charter school established under Indiana Code 20-24. The School, sponsored by Grace College, commenced operations with the 2017-2018 academic year and serves students in kindergarten through grade five. The accompanying financial statements include only the activity of the subsidiary, Otwell Miller Academy, Inc.

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.

In-kind Contribution Revenue – The School leases its building from Friends of Otwell Elementary, Ltd. (see Note 3). The lease agreement is limited to payments for costs associated with operating the building. In-kind contribution income and related expense are based on management’s estimate and totaled \$22,000 for the year ended June 30, 2018.

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 estimated useful lives generally are as follows:

Furniture and equipment	3 to 5 years
Textbooks	10 years
Vehicles	5 years

OTWELL MILLER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – For tax filing purposes, the School’s activity is reported on the tax returns of Friends of Otwell Elementary, Ltd. Friends 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, it would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2018, the School had no unrelated business income and thus no accounting for federal and state income taxes was required to be included in the accompanying financial statements of the School.

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 Friends commenced operations in 2015, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 20, 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 CONSIDERATIONS

During its initial year of operations, the School had a negative change in net assets of approximately \$40,000. Additionally, as of June 30, 2018, the School had negative working capital of approximately \$102,000. These factors cause a significant financial strain on the operations of the School.

The School’s enrollment increased from 58 students in the fall semester of 2017 to 88 students in the fall semester of 2018. The increased enrollment results in an additional \$190,000 of state funding for the 2018-2019 school year. Management believes the increase in student enrollment reduces the financial strain caused by the initial year’s operations.

NOTE 3 - LEASES

The School entered into a lease to own agreement for two school buses. Total payments are \$70,000 over a period of 54 months. The lease does not explicitly state an interest rate. Management has determined that the imputed interest on this agreement is insignificant and therefore has recorded the asset and related initial liability at \$70,000. The lease is accounted for as a capital lease obligation. At June 30, 2018, the cost and accumulated depreciation relating to these assets were \$70,000 and \$19,833, respectively. The School is behind in its payments by \$4,860.

OTWELL MILLER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - LEASES, Continued

Minimum future lease payments under the capital lease are as follows for the years ending June 30:

2019		\$	20,460
2020			15,600
2021			15,600
2022			10,200
			10,200
		\$	61,860

The School leases a building under an operating lease with Friends, a related party. The lease is renewed annually in August. The School pays monthly installments equal to 75% of all building-related expenses incurred by Friends.

NOTE 4 - RETIREMENT PLAN

The School provides retirement benefits covering teaching faculty. Retirement benefits 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, the School 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. Retirement plan expense was \$17,249 for the year ended June 30, 2018.

NOTE 5 - 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 Grace College an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was \$15,329 for the year ended June 30, 2018. The charter remains in effect until June 30, 2024 and is renewable thereafter by mutual consent.

OTWELL MILLER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to persons primarily residing in Otwell, Indiana and greater Pike 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, of which there were none at June 30, 2018. In addition, deposits maintained at Old National Bank are insured up to the FDIC insurance limit.

NOTE 7 - PRIOR PERIOD FINANCIAL ACTIVITY

Prior to the School's initial year of operations, it received income in the form of contributions of approximately \$2,400 to fund necessary startup costs. The School used these funds for supplies and utilities and incurred expenses of \$298. As of July 1, 2017, the School had a cash balance of \$2,102 and a net assets balance of \$2,102.

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. Accordingly, certain expenses have been allocated between program services and management and general expenses.

OTWELL MILLER ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2018

The report presented herein was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Otwell Miller Academy, 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*.