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December 28, 2018

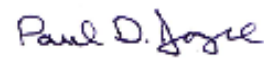
Charter School Board  
Seven Oaks Classical School, Inc.  
200 E. Association Street  
Ellettsville, IN 47429

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, 2017 to June 30, 2018. 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, 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 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 Years Ended June 30, 2018 and 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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and change in net deficit, 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 Seven Oaks Classical School, Inc. as of June 30, 2018 and 2017, and the changes in its net deficit, 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 signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana

November 29, 2018

**SEVEN OAKS CLASSICAL SCHOOL, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 66,352	\$ 67,805
Grants receivable	-	14,805
	<hr/>	<hr/>
<i>Total current assets</i>	66,352	82,610
	<hr/>	<hr/>
<b>PROPERTY AND EQUIPMENT</b>		
Land	297,500	297,500
Building and improvements	2,270,880	2,270,880
Less: accumulated depreciation	(117,544)	(41,848)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	2,450,836	2,526,532
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<u>\$ 2,517,188</u>	<u>\$ 2,609,142</u>
<b>LIABILITIES AND NET DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 235,679	\$ 136,809
Line of credit	40,000	-
Accounts payable and accrued expenses	96,058	104,173
Refundable advances	14,290	29,625
	<hr/>	<hr/>
<i>Total current liabilities</i>	386,027	270,607
	<hr/>	<hr/>
<b>NOTES PAYABLE, NET OF CURRENT PORTION</b>	2,403,594	2,642,613
	<hr/>	<hr/>
<i>Total liabilities</i>	2,789,621	2,913,220
	<hr/>	<hr/>
<b>NET DEFICIT, UNRESTRICTED</b>	(272,433)	(304,078)
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<u>\$ 2,517,188</u>	<u>\$ 2,609,142</u>

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

**SEVEN OAKS CLASSICAL SCHOOL, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIT**  
**For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 1,507,795	\$ 1,018,024
Grant revenue	202,649	130,291
Other income	<u>112,945</u>	<u>58,719</u>
<i>Total revenue and support</i>	<u>1,823,389</u>	<u>1,207,034</u>
<b>EXPENSES</b>		
Program services	1,401,749	1,266,633
Management and general	<u>389,995</u>	<u>235,288</u>
<i>Total expenses</i>	<u>1,791,744</u>	<u>1,501,921</u>
<b>CHANGE IN NET DEFICIT</b>	31,645	(294,887)
<b>NET DEFICIT, BEGINNING OF YEAR</b>	<u>(304,078)</u>	<u>(9,191)</u>
<b>NET DEFICIT, END OF YEAR</b>	<u>\$ (272,433)</u>	<u>\$ (304,078)</u>

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

**SEVEN OAKS CLASSICAL SCHOOL, INC.**

**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>
<b>FUNCTIONAL EXPENSES</b>						
Salaries and wages	\$ 759,314	\$ 199,332	\$ 958,646	\$ 617,206	\$ 128,281	\$ 745,487
Employee benefits	164,171	26,521	190,692	159,284	7,342	166,626
Staff development	9,086	-	9,086	2,109	-	2,109
Professional services	60,566	87,152	147,718	74,227	55,958	130,185
Authorizer oversight fees	-	35,400	35,400	-	25,540	25,540
Travel	5,837	-	5,837	-	-	-
Equipment	2,690	-	2,690	24,007	-	24,007
Classroom and office supplies	47,459	32,681	80,140	83,610	16,478	100,088
Occupancy	124,130	5,445	129,575	141,498	-	141,498
Depreciation	75,696	-	75,696	41,848	-	41,848
Information technology	33,701	-	33,701	34,069	-	34,069
Interest	57,471	-	57,471	51,267	-	51,267
Insurance	17,981	-	17,981	29,823	-	29,823
Other	43,647	3,464	47,111	7,685	1,689	9,374
	\$ 1,401,749	\$ 389,995	\$ 1,791,744	\$ 1,266,633	\$ 235,288	\$ 1,501,921
<i>Total functional expenses</i>						

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

**SEVEN OAKS CLASSICAL SCHOOL, INC.**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2018 and 2017**

	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>OPERATING ACTIVITIES</b>		
Change in net deficit	\$ 31,645	\$ (294,887)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation	75,696	41,848
Change in certain assets and liabilities:		
Grants receivable	14,805	(14,805)
Accounts payable and accrued expenses	(8,115)	84,020
Refundable advances	<u>(15,335)</u>	<u>29,625</u>
 <i>Net cash provided by (used in) operating activities</i>	 <u>98,696</u>	 <u>(154,199)</u>
 <b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>-</u>	<u>(1,768,380)</u>
 <b>FINANCING ACTIVITIES</b>		
Proceeds from note payable	-	2,000,000
Proceeds from line of credit	40,000	-
Principal payments on notes payable	<u>(140,149)</u>	<u>(20,578)</u>
 <i>Net cash provided by (used in) financing activities</i>	 <u>(100,149)</u>	 <u>1,979,422</u>
 <b>NET CHANGE IN CASH</b>	 (1,453)	 56,843
 <b>CASH, BEGINNING OF YEAR</b>	 <u>67,805</u>	 <u>10,962</u>
 <b>CASH, END OF YEAR</b>	 <u>\$ 66,352</u>	 <u>\$ 67,805</u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 65,163	\$ 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 Years Ended June 30, 2018 and 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 is sponsored by Grace College. During the 2017-2018 academic year, the School served approximately 220 students in kindergarten through ninth 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 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.

**SEVEN OAKS CLASSICAL SCHOOL, INC.**  
**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, 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 November 29, 2018, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

**NOTE 2 - GOING CONCERN CONSIDERATION**

The School has managed a net surplus of \$31,645 during the year ended June 30, 2018, however the cumulative net deficit as of June 30, 2018 is \$272,433. The School's current assets as of June 30, 2018 were \$66,352, while its current liabilities were \$386,027, including the current portion of notes payable of \$235,679. For these reasons, the long-term financial viability of the School was considered in conjunction with the audit.

During the first two years of the School's existence (2016-2017 and 2017-2018), the School experienced a lower enrollment than expected which had a significant negative impact on the School's financial performance and working capital management. During the 2018-2019 school year, enrollment increased to 326 which represents an increase of approximately 50% over the 2017-2018 school year. This increased enrollment will proportionately increase tuition revenue with minimal additional overhead required to serve the larger student population. In addition to improving the School's enrollment, management has focused its efforts on identify and securing additional grant opportunities. During September 2018, the School was notified that it had been awarded a Quality Counts grant for a preliminary amount of approximately \$900,000. Management believes this will address any short-term financial concerns. Management is in the process of reviewing the long-term projections to ensure appropriate actions are being taken to improve the School's financial viability.

Considering the above positive developments, the School anticipates continuing as a going concern for the foreseeable future.

**SEVEN OAKS CLASSICAL SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

**NOTE 3 - NOTES PAYABLE**

Notes payable consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Note payable to 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.	\$ 1,900,000	\$ 2,000,000
Note payable to IFF, payable \$6,484 monthly, including interest at 5.375% per annum until December 2021.	<u>739,273</u>	<u>779,422</u>
	<u>2,639,273</u>	<u>2,779,422</u>
Less: current portion	<u>(235,679)</u>	<u>(136,809)</u>
Long-term portion	<u>\$ 2,403,594</u>	<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.

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

2019	\$ 235,679
2020	240,976
2021	243,214
2022	819,404
2023	200,000
Thereafter	<u>900,000</u>
	<u>\$ 2,639,273</u>

**NOTE 4 - LINE OF CREDIT**

During 2018, the School obtained a \$80,000 revolving line of credit with Owens County State Bank that matures on July 26, 2019. The Drawings against the line of credit bear interest at the bank's prime rate plus 1% (a total of 6% at June 30, 2018) and are secured by the all school assets. The balance on the line of credit was \$40,000 as of June 30, 2018.

**NOTE 5 - 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.

**SEVEN OAKS CLASSICAL SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

**NOTE 5 - RETIREMENT PLAN, Continued**

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, 2017 (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.

Retirement plan expense was \$18,067 and \$2,239 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 6 - 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 \$35,400 and \$25,540 for the years ended June 30, 2018 and 2017, respectively. The charter remains in effect until September 2023 and is renewable thereafter by mutual consent.

**NOTE 7 - 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 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 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, 2018**

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*.