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January 9, 2019


Charter School Board
Circle City Preparatory, Inc.
4002 N Franklin Rd
Indianapolis, IN 46226

We have reviewed the report prepared by Circle City Preparatory, 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 Circle City Preparatory, 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 Circle City Preparatory, Inc., 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, CPA
State Examiner

CIRCLE CITY PREPARATORY, 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
Circle City Preparatory, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Circle City Preparatory, 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 Circle City Preparatory, 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 black ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana

December 14, 2018

CIRCLE CITY PREPARATORY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 110,435
Grants receivable	<u>43,993</u>

Total current assets 154,428

PROPERTY AND EQUIPMENT

Leasehold improvements	41,290
Less: accumulated depreciation	<u>(8,258)</u>

Property and equipment, net 33,032

TOTAL ASSETS

\$ 187,460

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of note payable	\$ 22,082
Accounts payable and accrued expenses	<u>48,615</u>

Total current liabilities 70,697

LONG-TERM LIABILITIES

Note payable, net of current portion	<u>78,698</u>
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Total liabilities 149,395

NET ASSETS, UNRESTRICTED

38,065

TOTAL LIABILITIES AND NET ASSETS

\$ 187,460

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

CIRCLE CITY PREPARATORY, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
State education support	\$ 603,307	\$ -	\$ 603,307
Grant revenue	127,679	-	127,679
Contributions	28,480	-	28,480
Other income	24,293	-	24,293
Net assets released from restrictions	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>
<i>Total revenue and support</i>	<u>883,759</u>	<u>(100,000)</u>	<u>783,759</u>
EXPENSES			
Program services	816,207	-	816,207
Management and general	<u>231,942</u>	<u>-</u>	<u>231,942</u>
<i>Total expenses</i>	<u>1,048,149</u>	<u>-</u>	<u>1,048,149</u>
CHANGE IN NET ASSETS	(164,390)	(100,000)	(264,390)
NET ASSETS, BEGINNING OF YEAR	<u>202,455</u>	<u>100,000</u>	<u>302,455</u>
NET ASSETS, END OF YEAR	<u>\$ 38,065</u>	<u>\$ -</u>	<u>\$ 38,065</u>

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

CIRCLE CITY PREPARATORY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

FUNCTIONAL EXPENSES	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 273,145	\$ 126,571	\$ 399,716
Employee benefits	20,924	13,729	34,653
Staff development	42,912	-	42,912
Professional services	25,469	51,837	77,306
Repairs and maintenance	33,735	-	33,735
Food service	58,881	-	58,881
Travel	2,692	2,608	5,300
Equipment	50,690	-	50,690
Classroom, kitchen, and office supplies	35,505	12,041	47,546
Occupancy	183,245	-	183,245
Information technology services	5,682	-	5,682
Depreciation	8,258	-	8,258
Interest	4,158	-	4,158
Authorizer oversight fee	-	1,028	1,028
Insurance	16,231	-	16,231
Advertising	-	2,933	2,933
Other	54,680	21,195	75,875
	<u>54,680</u>	<u>21,195</u>	<u>75,875</u>
<i>Total functional expenses</i>	<u>\$ 816,207</u>	<u>\$ 231,942</u>	<u>\$ 1,048,149</u>

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

CIRCLE CITY PREPARATORY, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

OPERATING ACTIVITIES

Change in net assets	\$ (264,390)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	8,258
Changes in certain assets and liabilities:	
Grants receivable	(43,993)
Accounts payable and accrued expenses	<u>62,426</u>
<i>Net cash used in operating activities</i>	(237,699)

INVESTING ACTIVITIES

Purchases of property and equipment	(38,530)
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FINANCING ACTIVITIES

Principal repayment on note payable	<u>(39,552)</u>
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NET CHANGE IN CASH

(315,781)

CASH, BEGINNING OF YEAR

426,216

CASH, END OF YEAR

\$ 110,435

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 4,158
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See independent auditors' report and accompanying notes to the financial statements

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Circle City Preparatory, Inc. (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. During the 2017-2018 school year, the School served approximately 75 students in kindergarten and first grade. The School plans to grow one grade level per year until it serves kindergarten through eighth grade. The School is sponsored by the Indiana Charter School Board. The charter remains in effect until June 30, 2022, and is renewable thereafter by mutual consent.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets as follows:

- *Unrestricted net assets* - represents net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.
- *Temporarily restricted net assets* - represents net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time. At June 30, 2017, the School’s temporarily restricted net assets consisted of \$100,000 of unspent funds from a grant from The Mind Trust. During 2018, the funds were spent and released from restrictions.

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 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. 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 are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs and equipment purchases are charged to expense as incurred.

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Depreciation is provided over the estimated useful lives of the respective assets (5 years) using the straight-line method.

Taxes on Income – Circle City Preparatory, 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, 2018, 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. Since the School commenced operations in 2017, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 14, 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

During the 2017-2018 school year (the first year of operations), the School experienced expenses exceeding revenue and support by approximately \$265,000 and a net cash flow deficit of approximately \$316,000. It is important to note that prior to the 2017-2018 school year, the School received grants totaling \$425,000 that are not included in the current year revenues. Also, a significant portion of the current year deficit is attributed to start-up expenses, such as equipment and furnishings, curriculum, and supplies.

The School met its enrollment goal for the 2018-2019 school year and is budgeting for a breakeven cash flow for year ending June 30, 2019. With the current year enrollment goals met and closely monitoring expenditures and cash flows, management believes the School will continue as a going concern and add another grade level during the 2019-2020 school year.

NOTE 3 - PRIOR PERIOD FINANCIAL ACTIVITY

Prior to the year ended June 30, 2018 (the School's first year of operations), the School received income from several grants and contributions to fund necessary startup costs. The School had a cash balance of \$426,216, leasehold improvements of \$2,760, accounts payable of \$8,271, note payable of \$118,250 and net assets of \$302,455 as of July 1, 2017. Of the net assets balance at July 1, 2017, \$100,000 was temporarily restricted, as stated in Note 1.

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 4 - LEASE

The School executed a thirty-six month lease on a building used as its school facility under an operating lease agreement that commenced on July 1, 2017. The lease provides for monthly rental payments that include a base rate plus an additional charge for each student over a number outlined in the agreement, both of which increase each year. The School also leases various equipment items. Total lease expense was \$183,245 for the year ended June 30, 2018.

Following is a schedule of future minimum lease obligations for the years ending June 30:

2019	\$	214,487
2020		252,007
2021		221

NOTE 5 - RETIREMENT PLAN

The School provides retirement benefits covering substantially all full-time employees. Employees are eligible to participate in a School-sponsored Section 403(b) plan. Under this plan, the School may, at its discretion, match employee contributions up to 3% of compensation, as defined in the plan document. The School did not make a discretionary match for the year ended June 30, 2018.

NOTE 6 - NOTE PAYABLE

The note payable consists of the following at June 30, 2018:

Note payable to IFF, payable in monthly installments of \$2,266, including interest at 5.625% per annum, secured by substantial all School assets	\$ 100,780
Less: current portion	<u>(22,082)</u>
Long-term portion	<u>\$ 78,698</u>

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

2019	\$	22,082
2020		23,356
2021		24,704
2022		26,130
2023		<u>4,508</u>
	\$	<u>100,780</u>

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - COMMITMENT

The School operates under a charter granted by the Indiana Charter School Board (“ICSB”). As the sponsoring organization, ICSB exercises certain oversight responsibilities. Under this charter, the School has agreed to pay ICSB an annual administrative fee equal to .5% of state tuition payments received. Payments under this agreement were \$1,028 for the year ended June 30, 2018.

NOTE 8 - RISKS AND UNCERTAINTIES

The School provides educational instruction to students residing in Marion County, 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. 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 The National Bank of Indianapolis and are insured up to the FDIC insurance limit.

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing 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.

CIRCLE CITY PREPARATORY, 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 Circle City 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*.