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January 9, 2019

Charter School Board
Indiana College Preparatory School, Inc.
4050 E 38th St
Indianapolis, IN 46218


We have reviewed the report prepared by Indiana College Preparatory School, Inc. for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report*, Donovan CPAs were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion of Indiana College Preparatory School, Inc. as of June 30, 2018.

We call your attention to the Basis for Disclaimer of Opinion paragraph. We also call your attention to the Emphasis of Matter Regarding School Closure paragraph included in the Independent Auditor's Report and further detailed in Note 1.

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 Indiana College Preparatory School, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditor's Report and the Supplemental Audit Report are filed in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

INDIANA COLLEGE PREPARATORY SCHOOL, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Deficit	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to the Financial Statements.....	7 - 10
OTHER REPORT	11



Donovan CPAs

Independent Auditors' Report

Mr. Geoffrey Cherry, Orbital, LLC
Independent Consultant to Indiana College Preparatory School, Inc.

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Indiana College Preparatory School, Inc. (the "School"), 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The School was unable to provide sufficient audit evidence to support amounts presented on the financial statements for various significant balances and transactions. Examples of missing audit evidence include, but are not limited to, invoices, receipts, deposits, and payroll records.

Additionally, the School reflected revenue of \$288,704 and \$364,248 relating to amounts claimed and received for its Title I grants during the years ended June 30, 2018 and 2017, respectively. We were unable to obtain sufficient appropriate audit evidence to support a material amount of expenses applied to this cost-reimbursement grant. Consequently, we were unable to determine if amounts claimed were accurate and if any adjustment to this revenue was necessary.

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Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter Regarding School Closure

As discussed in Note 1 to the financial statements, the School’s charter was revoked effective June 30, 2018, and the School ceased operations as of the revocation date. Due to significant pending matters, including a legal settlement described in Note 6, the legal entity operating the School is unable to terminate operations fully, and therefore has not presented its financial statements on the liquidation basis of accounting. Upon resolution of the pending matters, the legal entity operating the School will terminate operations, and will not continue as a going concern.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized initial "D".

Indianapolis, Indiana
December 7, 2018

INDIANA COLLEGE PREPARATORY SCHOOL, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 169,235	\$ 95,185
Grants receivable	2,169	2,258
Prepaid expenses	1,195	-
	<u>172,599</u>	<u>97,443</u>
<i>Total current assets</i>	<u>172,599</u>	<u>97,443</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	-	186,201
Textbooks	-	63,639
Less: accumulated depreciation	-	(99,938)
	<u>-</u>	<u>149,902</u>
<i>Property and equipment, net</i>	<u>-</u>	<u>149,902</u>
TOTAL ASSETS	<u>\$ 172,599</u>	<u>\$ 247,345</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Current portion of note payable	\$ 425,000	\$ 50,000
Accounts payable	563,765	431,782
Legal settlement payable	434,742	-
Accrued rent expense	267,012	145,830
Other accrued expenses	33,708	74,440
	<u>1,724,227</u>	<u>702,052</u>
<i>Total current liabilities</i>	<u>1,724,227</u>	<u>702,052</u>
LONG-TERM LIABILITIES		
Note payable, net of current portion	-	425,000
Deferred rent payable	82,333	53,671
	<u>82,333</u>	<u>478,671</u>
<i>Total long-term liabilities</i>	<u>82,333</u>	<u>478,671</u>
<i>Total liabilities</i>	1,806,560	1,180,723
NET DEFICIT	<u>(1,633,961)</u>	<u>(933,378)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 172,599</u>	<u>\$ 247,345</u>

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

INDIANA COLLEGE PREPARATORY 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>
REVENUE AND SUPPORT		
State education support	\$ 1,792,150	\$ 1,727,716
Grant revenue	725,081	796,659
Other income	<u>5,235</u>	<u>16,656</u>
<i>Total revenue and support</i>	<u>2,522,466</u>	<u>2,541,031</u>
EXPENSES		
Program services	2,004,071	2,142,690
Management and general	<u>620,220</u>	<u>725,369</u>
<i>Total expenses</i>	<u>2,624,291</u>	<u>2,868,059</u>
LOSS FROM OPERATIONS	<u>(101,825)</u>	<u>(327,028)</u>
OTHER INCOME (EXPENSE)		
Forgiveness of accounts payable	59,902	-
Loss on disposal of property and equipment	(223,918)	-
Legal settlement	<u>(434,742)</u>	<u>-</u>
<i>Total other income (expense)</i>	<u>(598,758)</u>	<u>-</u>
CHANGE IN NET DEFICIT	(700,583)	(327,028)
NET DEFICIT, BEGINNING OF YEAR	<u>(933,378)</u>	<u>(606,350)</u>
NET DEFICIT, END OF YEAR	<u><u>\$ (1,633,961)</u></u>	<u><u>\$ (933,378)</u></u>

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

INDIANA COLLEGE PREPARATORY SCHOOL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2018 and 2017

	2018			2017		
FUNCTIONAL EXPENSES	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 603,060	\$ 185,034	\$ 788,094	\$ 797,199	\$ 89,849	\$ 887,048
Employee benefits	120,846	32,212	153,058	147,226	28,576	175,802
Staff development	1,822	-	1,822	1,099	275	1,374
Professional services	168,331	383,864	552,195	234,247	461,975	696,222
Food services	155,131	-	155,131	160,231	-	160,231
Transportation services	139,786	-	139,786	272,346	-	272,346
Classroom, kitchen, and office supplies	25,224	7,246	32,470	33,657	16,043	49,700
Occupancy	687,478	-	687,478	431,655	107,914	539,569
Depreciation	80,960	-	80,960	39,975	9,994	49,969
Interest	-	4,625	4,625	-	4,479	4,479
Other	21,433	7,239	28,672	25,055	6,264	31,319
	\$ 2,004,071	\$ 620,220	\$ 2,624,291	\$ 2,142,690	\$ 725,369	\$ 2,868,059

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

INDIANA COLLEGE PREPARATORY SCHOOL, INC.**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	\$ (700,583)	\$ (327,028)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	80,960	49,969
Loss on disposal of fixed assets	223,918	-
Change in certain assets and liabilities:		
Grants receivable	89	20,086
Other receivables	-	10,835
Prepaid expenses	(1,195)	-
Accounts payable	131,983	254,986
Legal settlement payable	434,742	-
Accrued rent expense	121,182	10,830
Accrued other expenses	(40,732)	8,348
Deferred rent payable	<u>28,662</u>	<u>53,671</u>
 <i>Net cash provided by operating activities</i>	 279,026	 81,697
INVESTING ACTIVITIES		
Purchases of property and equipment	(154,976)	-
FINANCING ACTIVITIES		
Principal repayments on note payable	<u>(50,000)</u>	<u>(25,000)</u>
NET CHANGE IN CASH	74,050	56,697
CASH, BEGINNING OF YEAR	<u>95,185</u>	<u>38,488</u>
CASH, END OF YEAR	<u>\$ 169,235</u>	<u>\$ 95,185</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 4,625	\$ 4,479

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

INDIANA COLLEGE PREPARATORY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indiana College Preparatory School, Inc. (the "School") was a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School commenced operations as a public charter school on July 1, 2015 under Indiana Code 20-24 serving students in grades kindergarten through eight and was sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis ("OEI"). Effective June 30, 2018, the School's charter to operate as a public school was revoked by OEI and the School ceased operations.

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 came from resources provided under the Indiana Charter Schools Act. Under the Act, the School received 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 was recognized in the year in which the educational services are rendered.

A portion of the School's revenue was the product of cost reimbursement grants. Therefore, the School recognized revenue under these grants in the amounts of costs and expenses at the time they were incurred.

Forgiveness of Accounts Payable – In connection with the ceasing of operations, the School reached an agreement with one of its vendors whereby a portion of its accounts payable balance owed to the vendor was forgiven in exchange for an agreed-upon repayment schedule for the remaining balance owed by the School. The portion of the accounts payable balance forgiven by the vendor is reflected on the statements of activities and change in net deficit as forgiveness of accounts payable.

Grants Receivable – Grants receivable related primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The School believed that it was operating in compliance with regulatory requirements and as such no allowance for doubtful accounts was deemed necessary.

Property and Equipment – Purchases of assets and expenditures that materially increased value or extended useful lives were capitalized and were included in the accounts at cost. Routine maintenance and repairs and minor replacement costs were charged to expense as incurred.

Depreciation was provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally were as follows:

Furniture and equipment	3 - 5 years
Textbooks	3 years

All property and equipment was disposed of by June 30, 2018.

INDIANA COLLEGE PREPARATORY 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 – Indiana College Preparatory School, Inc. received a determination from the U.S. Department of Treasury stating that it qualified 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 required the School to recognize a tax liability only if it was 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 was the largest amount of tax liability that was greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability was recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. All tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 7, 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 - NOTE PAYABLE

The note payable consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Note payable to the Indiana State Board of Education, payable \$25,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, advanced in February 2016	\$ 425,000	\$ 475,000
Less: current portion	<u>(425,000)</u>	<u>(50,000)</u>
Long-term portion	\$ <u> -</u>	\$ <u>425,000</u>

The note payable to the Indiana State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. The note was secured by the School's future tuition support payments on the School's basic grant. With the closure of the School, the Indiana State Board of Education issued a demand for repayment. As such, the full balance of the note payable is shown as current.

INDIANA COLLEGE PREPARATORY SCHOOL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 3 - LEASE

In 2015, the School entered into a lease with the Archdiocese of Indianapolis Properties, Inc. (“Archdiocese”) for 45,000 square feet of space located in Indianapolis, Indiana. The term of the lease is for a period of seven years. Rent is due quarterly. Base rent expense for the fiscal years ended June 30, 2018 and 2017 was \$295,000 and \$270,000, respectively. Due to cash flow constraints, the School is delinquent on payments to the Archdiocese. The School owed the Archdiocese \$267,012 and \$145,830 as of June 30, 2018 and 2017, respectively.

The lease payments escalate over the term of the lease by an average of 8% annually. In accordance with accounting principles generally accepted in the United States of America, the School is required to record rent expense using the straight-line method over the term of the lease. The difference between recorded rent expense and the actual cash outflow is presented on the statements of financial position as deferred rent payable.

Minimum future lease obligations are as follows for the years ending June 30:

2019	\$	347,000
2020		374,000
2021		376,000
2022		380,000

As of the date of the auditors’ report, the lease had neither been forgiven nor renegotiated.

NOTE 4 - RETIREMENT PLANS

The School provided retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel were 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. The School’s contributions represented 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 offered a 403(b) defined contribution retirement plan. Non-teaching personnel and teachers who opted to not participate in TRF were eligible for benefits under the 403(b) plan. Under the 403(b) plan, the School contributed 7% of each employee’s defined compensation.

Retirement plan expense under both plans was \$48,178 and \$61,419, for the years ended June 30, 2018 and 2017 respectively. These amounts have been paid as of June 30, 2018 and 2017, respectively.

INDIANA COLLEGE PREPARATORY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 5 - COMMITMENTS

The School operated under a charter granted by OEI. As the sponsoring organization, OEI exercised certain oversight responsibilities. OEI assesses a fee equal to 1% of the basic tuition support received by its sponsored schools that have been operating for four or more years. Since the School was in its third year of operations, no fees were assessed for the years ended June 30, 2018 or 2017.

The School entered into an agreement with ICAN Schools (“ICAN”), a nonprofit management company, to provide legal, financial, and other management support services. Management fees were calculated as 18% of total revenues received from Federal and State sources. ICAN and the School severed their relationship, and therefore only a portion of the fee was paid to ICAN during the year ended June 30, 2018. The total management fee paid to ICAN by the School for the years ended June 30, 2018 and 2017 was \$150,877 and \$454,856, respectively. At June 30, 2018, the School owed \$85,040 to ICAN.

NOTE 6 - LEGAL SETTLEMENT

In 2018, the School, along with four other defendants, was named in a lawsuit filed by Charter Asset Management Fund, L.P. The lawsuit resulted from the School’s failure to repay Charter Asset Management Fund, L.P. in accordance with an agreement signed between the School and Charter Asset Management Fund, L.P. to factor the School’s future state education support payments. A settlement was reached in the amount of \$569,742 plus simple interest at the rate of ten percent per year commencing August 1, 2017. Payments were scheduled to be made from July to December 2017. The School made no payments on the legal settlement payable, while the other defendants collectively paid \$135,000. As of June 30, 2018, the defendants were in default of this agreement and \$434,742 remained unpaid. The School has recorded the entire balance due on the legal settlement as payable on June 30, 2018 since the exact terms and parties responsible for the liability cannot be determined as of the date of this report.

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

INDIANA COLLEGE PREPARATORY SCHOOL, INC.
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 as listed below:

Supplemental Audit Report of Indiana College Preparatory 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*.