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April 5, 2019

Charter School Board
Indiana Schools of Excellence, Inc.
3423 Michigan Street
South Bend, IN 46614


We have reviewed the audit report of Indiana Schools of Excellence, Inc. which was 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 Indiana Schools of Excellence, 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.

We call your attention to the Emphasis-of-Matter Regarding School Closure paragraph included in the Independent Auditors' Report and further detailed in Note 1.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for Indiana Schools of Excellence, 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

INDIANA SCHOOLS OF EXCELLENCE, 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
Indiana Schools of Excellence, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Schools of Excellence, 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 deficiency, 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 Indiana Schools of Excellence, Inc. as of June 30, 2018 and 2017, and the changes in its net deficiency, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding School Closure

As discussed in Note 1 to the financial statements, the School ceased operations as of June 30, 2018. The organization is in the process of liquidation; however, the accompanying financial statements have not been adjusted to reflect the liquidation basis of accounting. There is no assurance that the organization will be able to meet its financial obligations.

DONOVAN

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

Indianapolis, Indiana
January 30, 2019

INDIANA SCHOOLS OF EXCELLENCE, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 68,925	\$ 33,075
Grants receivable	3,735	95,487
Prepaid expenses	980	980
<i>Total current assets</i>	<u>73,640</u>	<u>129,542</u>
PROPERTY AND EQUIPMENT		
Land	150,000	150,000
Buildings and improvements	2,476,851	2,476,851
Furniture and equipment	809,547	809,547
Less: accumulated depreciation	<u>(1,979,801)</u>	<u>(1,787,584)</u>
<i>Property and equipment, net</i>	<u>1,456,597</u>	<u>1,648,814</u>
TOTAL ASSETS	<u><u>\$ 1,530,237</u></u>	<u><u>\$ 1,778,356</u></u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 1,717,816	\$ 1,829,759
Trade payables	39,912	39,096
Other payable	208,170	208,578
Accrued payroll and related liabilities	87,998	136,309
<i>Total current liabilities</i>	2,053,896	2,213,742
NET DEFICIENCY, UNRESTRICTED	<u>(523,659)</u>	<u>(435,386)</u>
TOTAL LIABILITIES AND NET DEFICIENCY	<u><u>\$ 1,530,237</u></u>	<u><u>\$ 1,778,356</u></u>

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

INDIANA SCHOOLS OF EXCELLENCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIENCY
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State education support	\$ 1,419,781	\$ 1,519,128
Grant revenue	412,187	545,995
Student fees	7,028	8,861
Other income	1,128	3,919
	<u>1,840,124</u>	<u>2,077,903</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	1,418,064	1,621,108
Management and general	510,333	533,879
	<u>1,928,397</u>	<u>2,154,987</u>
 <i>Total expenses</i>		
CHANGE IN NET DEFICIENCY	(88,273)	(77,084)
 NET DEFICIENCY, BEGINNING OF YEAR	<u>(435,386)</u>	<u>(358,302)</u>
 NET DEFICIENCY, END OF YEAR	<u>\$ (523,659)</u>	<u>\$ (435,386)</u>

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

INDIANA SCHOOLS OF EXCELLENCE, 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>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 665,629	\$ 240,981	\$ 906,610	\$ 815,746	\$ 217,509	\$ 1,033,255
Employee benefits	208,758	48,543	257,301	253,950	60,096	314,046
Staff development and recruitment	5,524	-	5,524	8,370	1,916	10,286
Depreciation	192,216	-	192,216	218,762	-	218,762
Food service expense	65,840	-	65,840	74,304	-	74,304
Insurance	-	13,841	13,841	-	17,815	17,815
Interest	-	97,643	97,643	-	120,284	120,284
Occupancy	48,193	-	48,193	49,899	-	49,899
Professional services	123,635	77,326	200,961	99,172	61,339	160,511
Repairs and maintenance	26,790	-	26,790	14,397	-	14,397
Classroom and office supplies	33,857	18,999	52,856	23,050	14,796	37,846
Information technology	44,970	-	44,970	54,938	-	54,938
Travel	1,991	722	2,713	8,520	-	8,520
Write off of other receivable	-	-	-	-	34,927	34,927
Other	661	12,278	12,939	-	5,197	5,197
<i>Total functional expenses</i>	<u>\$ 1,418,064</u>	<u>\$ 510,333</u>	<u>\$ 1,928,397</u>	<u>\$ 1,621,108</u>	<u>\$ 533,879</u>	<u>\$ 2,154,987</u>

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

INDIANA SCHOOLS OF EXCELLENCE, 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 deficiency	\$ (88,273)	\$ (77,084)
Adjustments to reconcile change in net deficiency to net cash provided by operating activities:		
Depreciation	192,216	218,762
Change in certain assets and liabilities:		
Grants receivable	91,752	(75,209)
Other receivable	-	34,927
Prepaid expenses	-	4,400
Trade payables	816	(32,347)
Other payable	(408)	21,292
Accrued payroll and related liabilities	(48,311)	(18,214)
	<u>147,792</u>	<u>76,527</u>
<i>Net cash provided by operating activities</i>	147,792	76,527
FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(111,942)</u>	<u>(115,000)</u>
NET CHANGE IN CASH	35,850	(38,473)
CASH, BEGINNING OF YEAR	<u>33,075</u>	<u>71,548</u>
CASH, END OF YEAR	<u>\$ 68,925</u>	<u>\$ 33,075</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 97,643	\$ 120,284

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

INDIANA SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indiana Schools of Excellence, Inc. (the "School") was a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operated a public charter school (Xavier School of Excellence) established under Indiana Code 20-24 and was sponsored by Ball State University. During the 2017-2018 school year, the School served approximately 190 students from kindergarten through eighth grade. Effective June 30, 2018, 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.

Accounts Receivable – Accounts receivable relate primarily to activities funded under federal grants 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.

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 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.

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:

Buildings and improvements	10 to 15 years
Furniture and equipment	5 to 7 years

Taxes on Income – Indiana Schools of Excellence, 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.

INDIANA SCHOOLS OF EXCELLENCE, 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. The tax years ending after 2014 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through January 30, 2019, 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 - NOTES PAYABLE

Notes payable consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Note payable to United Bank, payable \$6,774 monthly, including interest at 3.0% per annum, matured April 2018, secured by all business assets	\$ 217,816	\$ 287,523
Note payable to Charter School Development Corporation, payable \$3,835 monthly, including interest at 7.5% per annum, matured April 2018, paid in full	-	42,236
Note payable to IFF, interest only payable monthly at 6.5% per annum, matured in May 2018, secured by real estate	<u>1,500,000</u>	<u>1,500,000</u>
	1,717,816	1,829,759
Less: current portion	<u>(1,717,816)</u>	<u>(1,829,759)</u>
Long-term portion	\$ <u>-</u>	\$ <u>-</u>

NOTE 3 - OTHER PAYABLE

The School contracted with Food Service Professionals (“FSP”) to provide food service on-site to its students and employees. The School terminated its contract with FSP as of June 30, 2017. The School has a payable to FSP totaling \$208,170 and \$208,578 as of June 30, 2018 and 2017, respectively.

INDIANA SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 4 - RETIREMENT PLAN

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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 plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2017 (the latest year reported), both TRF and PERF were more than 80% funded.

Retirement plan expense was \$67,197 and \$70,917 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5 - COMMITMENTS

The School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition payments received. Payments under this agreement for the years ended June 30, 2018 and 2017 were \$32,907 and \$31,215, respectively. The charter expired effective June 30, 2018 and was not renewed by Ball State University.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provided education services to families residing in St. Joseph and surrounding counties in Indiana, and was subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues related 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. At June 30, 2018, the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at Notre Dame Federal Credit Union and occasionally exceed the FDIC insurance limit.

INDIANA SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 7 - 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 deficiency. Accordingly, certain expenses have been allocated between program services and management and general expenses.

INDIANA SCHOOLS OF EXCELLENCE, 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 Indiana Schools of Excellence, 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*.