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May 9, 2019

Charter School Board
Ace Preparatory, Inc.
5326 Hillside Ave.,
Indianapolis, IN 46220


We have reviewed the audit report of Ace Preparatory, Inc. which was opined upon by CliftonLarsonAllen LLP, 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 Ace 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.

We call your attention to the findings in the report on pages 16 through 21. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings.

In our opinion, CliftonLarsonAllen LLP 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 Ace Preparatory, 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

ACE PREPARATORY, INC.

FINANCIAL STATEMENTS

**YEAR ENDED JUNE 30, 2018 AND PERIOD OF INCEPTION
(FEBRUARY 12, 2015) TO JUNE 30, 2017**

**ACE PREPARATORY, INC.
OTHER REPORTS
YEAR ENDED JUNE 30, 2018 AND PERIOD OF INCEPTION (FEBRUARY 12, 2015) TO
JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
ACE Preparatory, Inc.
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of ACE Preparatory, Inc. (an Indiana corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2018, and the period of inception (February 12, 2015) through June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor considers 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.

Board of Directors
ACE Preparatory, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACE Preparatory, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the year ended June 30, 2018, and the period from inception (February 12, 2015) through June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2019, on our consideration of ACE Preparatory, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ACE Preparatory, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ACE Preparatory, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Indianapolis, Indiana
January 31, 2019

ACE PREPARATORY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash	\$ 108,719	\$ 7,798
Accounts Receivable	19,547	10,000
Grants Receivable	22,662	14,696
Prepaid Expense	12,000	7,438
Deposits	66,013	-
Property and Equipment, Net	117,343	115,511
Total Assets	\$ 346,284	\$ 155,443
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 37,812	\$ 11,022
Accrued Expenses and Other Liabilities	32,062	24,539
Deferred Revenue	-	58,019
Related Party - Line of Credit	88,001	13,001
Total Liabilities	157,875	106,581
NET ASSETS		
Unrestricted	188,409	48,862
Total Net Assets	188,409	48,862
Total Liabilities and Net Assets	\$ 346,284	\$ 155,443

See accompanying Notes to Financial Statements.

ACE PREPARATORY, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2018 AND PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH
JUNE 30, 2017

	2018	2017
	Total	Total
REVENUE AND SUPPORT		
Contributions and Donations	\$ 38,014	\$ 103,710
State Grant Revenue	589,483	236,355
Grant Revenue	73,378	254,077
School Breakfast and Lunch Grant	39,075	14,242
Charter School Grant Revenue	346,020	202,355
In-Kind Income	106,698	108,316
Rental Income	113,834	10,000
Other Income	20,640	1,854
Total Revenue and Support	1,327,142	930,909
EXPENSES		
Program Services Expense	924,638	709,015
Support Services Expense	262,957	173,032
Total Expenses	1,187,595	882,047
CHANGE IN NET ASSETS	139,547	48,862
Net Assets - Beginning of Period	48,862	-
NET ASSETS - END OF PERIOD	\$ 188,409	\$ 48,862

See accompanying Notes to Financial Statements.

ACE PREPARATORY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018 AND PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH JUNE 30, 2017

	2018			2017		
	Program Services	Supporting Services	Total	Program Services	Supporting Services	Total
Salaries and Benefits	\$ 243,812	\$ 145,702	\$ 389,514	\$ 276,590	\$ 144,033	\$ 420,623
Materials and Supplies	96,265	5,756	102,021	36,019	-	36,019
Utilities	38,047	-	38,047	25,034	-	25,034
Repairs and Maintenance	37,733	-	37,733	34,255	-	34,255
Depreciation	37,336	-	37,336	36,289	-	36,289
Training and Professional Services	146,707	2,266	148,973	65,999	-	65,999
Technology	10,960	-	10,960	4,170	-	4,170
Software	9,087	-	9,087	16,027	-	16,027
Services and Fees	3,648	1,415	5,063	5,446	-	5,446
Outsourcing	-	57,446	57,446	-	26,126	26,126
Insurance	25,592	-	25,592	23,762	-	23,762
Bank Fees	768	-	768	4,109	-	4,109
Rent	72,928	-	72,928	6,120	-	6,120
In-Kind Rent	106,698	-	106,698	108,316	-	108,316
Interest	3,911	-	3,911	843	-	843
Student Expense	90,611	-	90,611	34,844	-	34,844
Marketing	-	34,803	34,803	30,299	1,373	31,672
Accounting	-	15,569	15,569	-	1,500	1,500
Other Miscellaneous	535	-	535	893	-	893
Total Functional Expenses	\$ 924,638	\$ 262,957	\$ 1,187,595	\$ 709,015	\$ 173,032	\$ 882,047

See accompanying Notes to Financial Statements.

ACE PREPARATORY, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2018 AND PERIOD FROM INCEPTION (FEBRUARY 12, 2015) THROUGH
JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 139,547	\$ 48,862
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	37,336	36,289
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(9,547)	(10,000)
Grants Receivable	(7,966)	(14,696)
Deposits	(66,013)	-
Prepaid Expense	(4,562)	(7,438)
Accounts Payable	26,790	11,022
Accrued Expenses and Other Liabilities	7,523	24,539
Deferred Revenue	(58,019)	58,019
Net Cash Provided by Operating Activities	<u>65,089</u>	<u>146,597</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(39,168)	(151,800)
Net Cash Used by Investing Activities	<u>(39,168)</u>	<u>(151,800)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Related Party Line of Credit, Net	75,000	13,001
Net Cash Provided by Financing Activities	<u>75,000</u>	<u>13,001</u>
NET INCREASE IN CASH	100,921	7,798
Cash - Beginning of Year	<u>7,798</u>	<u>-</u>
CASH - END OF YEAR	<u>\$ 108,719</u>	<u>\$ 7,798</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING		
AND FINANCING ACTIVITIES		
Interest Paid	<u>\$ 3,911</u>	<u>\$ 843</u>

See accompanying Notes to Financial Statements.

**ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

ACE Preparatory, Inc. (ACE Prep, the Academy) is a nonprofit organization. The purposes for which ACE Prep is organized are to educate students in Kindergarten through Grade 5 through the operation of ACE Preparatory Academy Charter School (ACE Prep), preparing them for school success and lives of opportunity through rigorous academics, positive character development, and excellence.

Use of Estimates in Preparing Financial Statements

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

ACE Prep considers all demand accounts to be cash.

Accounts Receivables

Accounts receivable represent the uncollected portion of funds from the sublease agreement for facility space. Management has deemed these amounts to be fully collectible within one year.

Grants Receivables

Grants receivable represent the uncollected portion of funds from grants awarded to ACE Prep. Management has deemed these amounts to be fully collectible within one year.

Deposit

Deposits represent sublease payments collected by the lessor. These payments are held in a cash collateral account and can be used towards future capital expenditures or credited towards the future purchase of the building.

Property and Equipment

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three years for computers and five years for textbooks and furniture and fixtures. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2018 and period of inception (February 12, 2015) through June 30, 2017.

Deferred Revenue

The deferred revenue consisted of unearned revenue which was the result of overpayment of funds by the state of Indiana Department of Education related to an over estimation of the student population at the beginning of the 2016-2017 school year. These funds had not been utilized or expended for program purposes as of June 30, 2017. However, such funds were designated to be used or refunded to the state of Indiana during the current fiscal year.

Net Assets

Net assets of the Academy and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Academy and/or the passage of time. The Academy had no temporarily restricted net assets at June 30, 2018 and 2017.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Academy. Generally, the donors of these assets permit the Academy to use all or part of the income earned on related investments for general or specific purposes. The Academy had no permanently restricted net assets at June 30, 2018 and 2017.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service expenses and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions and donations, as well as grant revenues are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

Contributions and Donations – The Academy reports gifts of cash and other assets from various organizations and private donors as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Academy did not receive any restricted contributions or donations for the years ended June 30, 2018 and 2017.

State Grant Revenue – The Academy receives monies from the state Department of Education for various expenses based on enrollment.

Grant Revenue – The Academy receives monies from private organizations as a direct recipient of the grant.

School Breakfast and Lunch Grant – The Academy receives monies from the state of Indiana for reimbursement of free breakfast and lunch programs.

Charter School Grant Revenue – The Academy received federal grant monies for the planning and implementation phases of the Academy as a charter school.

Other Income – The Academy records miscellaneous income that is nonrecurring as “Other Income.” For the year ended June 30, 2018, “Other Income” consisted primarily of interest income and income related to repairs from subtenants. For the period from inception (February 12, 2015) through June 30, 2017, “Other Income” consisted primarily of interest income.

Rental Income – The Academy records income related to sub-lease agreements as “Rental Income.” For the year ended June 30, 2018 and period of inception (February 12, 2015) through June 30, 2017, “Rental Income” consisted of sublease rent and shared utility costs (see Note 4).

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. See Note 5 for discussion of in-kind facility usage. No other significant contributions of such goods or services were received for the year ended June 30, 2018 and period of inception (February 12, 2015) through June 30, 2017.

ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred and approximated \$39,436 and \$31,672 during the years ended June 30, 2018 and period of inception (February 12, 2015) through June 30, 2017, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

ACE Prep is organized as an Indiana nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Academy and recognize a tax liability if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Academy, and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The U.S. federal and state income tax returns of the Academy are subject to examination by the IRS and state taxing authorities

As of the issuance date, the Return of Organization Exempt from Income Tax (Form 990) was in the process of being filed for the years ended June 30, 2015 and 2016. During the year ended June 30, 2018, the Form 990 was filed for the year ended June 30, 2017.

ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Guidance

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued amended guidance regarding the presentation of financial statements of not-for-profit entities to improve the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The guidance requires information regarding liquidity and the financial assets available to satisfy near-term demands for cash, requires inclusion of a statement of functional expenses, and alters the net asset classifications. The guidance also requires both qualitative and quantitative disclosures regarding the types of costs that can be allocated and management and general activities. The guidance will initially be applied using a retrospective approach. The standard will be effective for the entity for annual periods beginning after December 15, 2018, and early adoption is permitted and encouraged. Management is evaluating the impact of the amended financial statement presentation guidance on the entity's financial statements.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued amended guidance to clarify and improve the guidance between contributions and exchange transactions. The ASU distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. The ASU assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. The amendments in the guidance are effective for annual periods beginning after December 15, 2018. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for periods beginning after December 15, 2016. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

**ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Guidance (Continued)

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2018	2017
Furniture and Fixtures	\$ 187,657	\$ 148,489
Textbooks	1,445	1,445
Computers	1,866	1,866
Total	190,968	151,800
Less: Accumulated Depreciation and Amortization	73,625	36,289
Total Property and Equipment	\$ 117,343	\$ 115,511

Depreciation and amortization expense totaled \$37,336 and \$36,289 for the year ended June 30, 2018 and period of inception (February 12, 2015) through June, 30 2017, respectively.

NOTE 3 RELATED PARTY – LINE OF CREDIT

The Academy has a \$193,000 revolving line of credit with a bank, of which \$88,001 and \$13,001 was outstanding at June 30, 2018 and 2017, respectively. An employee of the bank served on the board of directors of the Academy during the periods ending June 30, 2018 and June 30, 2017, respectively. Borrowings under the line bear interest at the bank's prime rate (5.00% at June 30, 2018) and is secured by all assets of the Academy. Accrued interest and principal are due at maturity. Original maturity date of the line of credit was December 25, 2017, but has extended to February 24, 2019. The line of credit is subject to the terms of a credit agreement, which includes certain financial and nonfinancial covenants. Certain covenants were violated at the date of October 28, 2018, which is 120 days past year-end. The covenants were waived through this date but were not waived beyond the date.

**ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 LEASES

Facility Lease Expense

In July 2015, ACE Prep entered into a 10-year lease agreement for its facility that commenced July 2016 and continues through June 2026. Additionally, unless notice is given by either party, the lease will automatically renew for one five-year term. There are four components to payment of this lease: debt service payment, lease payment, facility service payment, and equity payment. The equity payment is equal to \$150,000 and was a one-time fee. This payment was made during the period of inception through June 30, 2017, and was used to purchase equipment for the Academy. The remaining three components of the payment fluctuate throughout the lease term, but approximated \$13,437, \$672, and \$2,000, respectively, monthly, for the year ending June 30, 2017. Due to dissolution of the lessor, rent expense under this agreement for the period of inception through June 30, 2017 approximated \$4,016 (see Note 5). The lease agreement was renegotiated on January 1, 2018 with 5326 Hillside, LLC.

Terms of the renegotiated lease agreement commenced January 1, 2018 and continues through June 30, 2020 with base rent of \$12,000 monthly through June 30, 2018. Rent increases to \$18,000 monthly and \$20,000 monthly for the 2019 and 2020 fiscal years, respectively. Rent expense for the year ended June 30, 2018 approximated \$179,626, including \$106,698 of in-kind rent expense (see Note 5).

The lease agreement is subject to certain nonfinancial covenants. Management believes the Academy was in compliance with the terms of the agreement at June 30, 2018.

Future minimum lease payments remaining under this operating lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 216,000
2020	240,000
Total Minimum Lease Payments	<u>\$ 456,000</u>

Copier Lease

ACE Prep entered into a copier lease under an operating lease agreement in July 2016 that extends through 2019 with the option to renew at 12-month extensions. Monthly base payments are approximately \$317.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 3,808
Total Minimum Lease Payments	<u>\$ 3,808</u>

Rental expense for the year ended June 30, 2018 and the period of inception through June 30, 2017 totaled \$5,732 and \$4,126, respectively.

**ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5 LEASES (CONTINUED)

Lease Income

ACE Prep subleases a portion of the facility under an operating lease agreement with Avondale Meadows Academy, Inc. The lease commenced on June 9, 2017, and is scheduled to continue through July 8, 2018. Monthly payments due under this arrangement are \$8,000. The sublessor did not occupy the space until July 2017; as such, management decided to forego the first month's rent under the lease agreement. Income received under this lease was \$95,680 and \$10,000 for the year ended June 30, 2018 and the period of inception through June 30, 2017, and is included in Rental Income in the statement of activities.

All sublease payments from Avondale Meadows Academy, Inc. are paid directly to 5326 Hillside, Inc. These payments are held in a cash collateral account and can be expended on future capital assets at the discretion of Ace Prep or used as a credit towards the future purchase of the building. During the year ended June 30, 2018, there was a total of \$-0- expended on capital assets which are owned by the lessor and considered part of the deposit. If Ace Prep does not exercise the purchase option on the building and terminates the lease, the remaining amount of the cash held in the cash collateral account is considered nonrefundable.

On August 5, 2017, ACE Prep entered into a sublease of the facility with The Well Church. The term of the agreement commenced August 6, 2017, and terminates July 29, 2018. In addition to a weekly rental fee of \$200, 10 hours a month of maintenance are required to be performed by an individual associated with the church. Rental income for the period ended June 30, 2018 approximates \$5,400 and is shown on the statement of activities under Rental Income.

Future minimum lease income under this lease is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	<u>\$ 3,323</u>
Total Minimum Lease Income	<u><u>\$ 3,323</u></u>

NOTE 5 IN-KIND FACILITY USAGE

ACE Prep entered into a lease agreement for facility space (see Note 4). The lessor dissolved in late 2016 and two outside lenders took ownership of the facility shortly thereafter. The lenders waived ACE Prep's responsibility to make lease payments through December 31, 2017. Additionally, a total payment of \$24,000 was accepted for the first four months of rent under the new lease agreement (see Note 4). Accordingly, the Academy recorded \$124,698 the amount that would have been paid to the original lessor and amount that would have been paid to the new lessor, and \$108,316 for the years ended June 30, 2018 and 2017, respectively, as in-kind contributions in "In-Kind Income" on the statement of activities.

ACE PREPARATORY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 SUBSEQUENT EVENTS

We have evaluated subsequent events through January 31, 2019, the date the financial statements were available to be issued. The following item should be disclosed. Events or transactions occurring after June 30, 2018, but prior to January 31, 2019, that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2018.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
ACE Preparatory, Inc.
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ACE Preparatory, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statement of activities, statement of functional expenses, and cash flows for the year ended June 30, 2018, and the period of inception (February 12, 2015) through June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ACE Preparatory, Inc.'s (the Academy) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACE Preparatory, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of ACE Preparatory, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. See findings 2018-001, 2018-002, 2018-003, and 2018-004.

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACE Preparatory, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings. See findings 2018-001, 2018-002, 2018-003, and 2018-004.

ACE Preparatory, Inc.'s Response to Findings

ACE Preparatory, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings. ACE Preparatory, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Indianapolis, Indiana
January 31, 2019

**ACE PREPARATORY, INC.
SCHEDULES OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section II – Financial Statement Findings

2018 – 001

Type of Finding:

- Material Weakness: Internal Control over Financial Reporting

Condition: Material adjusting entries and reclassifying journal entries were identified during the conduct of the audit to properly state the following accounts in the financial statements: adjusting entries were required – accounts receivable, accumulated depreciation, prepaid expenses, accounts payable, accrued liabilities, revenue, and expense.

Criteria or specific requirement: Management of the Academy should maintain policies, procedures, and internal controls sufficient to capture all information necessary to present its' financial statements in accordance with accounting principles generally accepted in the United States of America.

Context: During our audit of these financial statement areas, we noted certain balances were incorrect.

Effect: Material adjustments were required to fairly state the Academy's financial statements.

Cause: Management's review of these financial statement areas did not identify the misstatements timely resulting in correct balances. Procedures and internal controls of the Academy failed to prevent or detect these areas.

Repeat finding: This is a repeat of a finding in the immediate prior audit with respect to the balances of accounts receivable, prepaid expenses, accounts payable, accrued liabilities, revenue, and expense.

Recommendation: We recommend that management review controls related to financial statement preparation review at the end of each period. Financial statement preparation should include a review of reconciliations and balances to ensure that financial statement line items are properly stated and classified. Internally prepared financial statements should also be reviewed by members of management outside the finance department on a monthly basis.

Views of responsible officials and planned corrective actions: The Academy's management team takes the reporting of accurate and reliable financial documents very seriously and strives to uphold the duty of preparing reports that are properly stated and classified. To that end, internal controls will be reviewed and tightened and any necessary updates to the Financial Handbook will be brought before the Board of Directors for discussion and approval. Furthermore, internal management, consistent of the Head of School and Manager of Operations, will review all reconciliations and balances on a monthly basis and then secure a second check by a contracted outside financial consultant before then sharing with the Board's Executive Committee and Treasurer. The full Board will receive, and review, monthly financial documents as a standing agenda item at all public board meetings.

ACE PREPARATORY, INC.
SCHEDULES OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

2018 – 002

Type of Finding:

- **Material Weakness:** Calculation and review of monthly reconciliation of accounts receivable, accounts payable and accrued liabilities.

Condition: There is no process in place to calculate, reconcile, and review accounts receivable, accounts payable, and accrued liabilities on a monthly basis or at year-end.

Criteria or specific requirement: Per the Financial Policy handbook, monthly reconciliations are to be performed and reviewed on accounts such as accounts receivable, accounts payable and accrued liabilities.

Context: During our audit, we noted that monthly reconciliation of accounts receivable, accounts payable and accrued liabilities were not being prepared and, accordingly, a subsequent review and approval was also not completed.

Effect: Account balances in accounts receivable, accounts payable and accrued liabilities were materially incorrect.

Cause: Lack of monthly preparation and review of accrual reconciliations can lead to incorrect account balances.

Repeat finding: This is a repeat of a finding in the immediately prior audit.

Recommendation: We recommend that a monthly reconciliation of all asset and liability accounts be performed and reviewed to ensure the proper account balances.

Views of responsible officials and planned corrective actions: The Academy strives to maintain accurate and reliable financial statements, uphold GAAP policies, and implement the Financial Handbook to fidelity. At month end, all accounts receivable, accounts payable, prepaids, differed revenue, and accrued liabilities will be reconciled and reviewed to ensure balances reflect monthly activity. Furthermore, internal management, consistent of the Head of School and Manager of Operations, will review all reconciliations and balances on a monthly basis and then secure a second check by a contracted outside financial consultant before then sharing with the board's Executive Committee and Treasurer.

**ACE PREPARATORY, INC.
SCHEDULES OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section II – Financial Statement Findings

2018 – 003

Type of Finding:

- Material Weakness: Calculation of in-kind contributions and rental income.

Condition: There is no process in place to calculate in-kind contributions or sublease rental income.

Criteria or specific requirement: In-kind contributions for the use of facilities is material to the financial statements. Additionally, rental income from the sublease of the facilities is material to the financial statements.

Context: When auditing the accounts related to rent liabilities and rent expense, it was discovered that entries related to in-kind contributions, rental income from a sublease, and rent expense related to the sublease were not recorded.

Effect: In-kind contributions, rental income, and rent expense were materially misstated.

Cause: Lack of calculation and review of in-kind contributions and rental income.

Repeat finding: This is not a repeat of a finding in the immediately prior audit.

Recommendation: We recommend that a monthly calculation be performed and reviewed to ensure the proper account balances.

Views of responsible officials and planned corrective actions: The Academy strives to maintain accurate and reliable financial statements, uphold GAAP policies, and implement the Financial Handbook to fidelity. The circumstances giving rise to in-kind contributions and expense are not expected to recur in fiscal year 2019; however, management will monitor and work with its contracted accountant to appropriately capture such items in the future.

**ACE PREPARATORY, INC.
SCHEDULES OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section II – Financial Statement Findings

2018 – 004

Type of Finding:

- Material Weakness: Preparation and review of the financial statements.

Condition: The Academy's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Academy's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Criteria or specific requirement: The Board of Directors and management share the ultimate responsibility for the Company's internal control system. The Academy engages CliftonLarsonAllen to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CliftonLarsonAllen cannot be considered part of the Academy's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Academy has implemented a review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of applicable accounting principles generally accepted in the United States of America and knowledge of the Academy's activities and operations.

Context: During our audit, we noted that several material adjustments were needed to appropriately state both the statement of financial position and statement of activities.

Effect: Potential omissions or other errors within the financial statements that are material would not be identified and corrected on a timely basis.

Cause: Lack of review of internal financial statements.

Repeat finding: This is not a repeat of a finding in the immediately prior audit.

Recommendation: We recommend that a review of the audited financial statements be performed by an individual possessing the requisite skills to monitor and review the audited financial statement report for compliance with current accounting standards.

Views of responsible officials and planned corrective actions: The Academy strives to ensure that it upholds all its financial responsibilities. Management and the board are considering the cost vs. benefit of options to include the appropriate skill set to fulfill this role either through board appointment or its contracted accounting relationship.

**ACE PREPARATORY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

Board of Directors

Ace Preparatory, Inc. respectfully submits the following summary schedule of prior audit findings for the period of inception (February 12, 2015) through June 30, 2017.
Audit period: June 30, 2018

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

2017 – 001 Internal Control over Financial Reporting

Condition: Material adjusting entries and reclassifying journal entries were identified during the conduct of the audit to properly state the following accounts in the financial statements: adjusting entries – accounts receivable, grants receivable, prepaid expenses, accounts payable, accrued liabilities, deferred revenue, line of credit, revenue, and expense.

Status: See current year finding 2018-001.

Reason for finding's recurrence: Material adjusting entries and reclassifying journal entries were identified during the conduct of the audit to properly state the following accounts in the financial statements: adjusting entries – accounts receivable, accumulated depreciation, prepaid expenses, accounts payable, accrued liabilities, revenue, and expense.

Corrective action: See the corrective action plan and management's views at finding 2018-001.

2017 – 002 Segregation of Duties

Condition: Due to the size of the organization, the Head of School has access to perform functions that would normally be segregated.

Status: The Academy contracted with an outsourced accountant to provide accounting services to the organization. The Head of School no longer can access accounting related functions. Additionally, positive pay was purchased through the Bank, allowing for the preauthorization of check numbers and amounts. The preauthorized amounts are sent to both parties involved in management of the Academy. The reconciliation of the bank account is completed outside of management by the outsourced accountant.

2017 – 003 Calculation and Review of Monthly Reconciliations

Condition: There is no process in place to calculate reconcile and review accounts receivable, accounts payable, and accrued liabilities on a monthly basis or at year-end.

Status: See current year finding 2018-002.

Reason for finding's recurrence: During our audit, we noted that monthly reconciliation of accounts receivable, accounts payable and accrued liabilities were not being prepared and, accordingly, a subsequent review and approval was also not completed.

Corrective action: See the corrective action plan and management's views at finding 2018-002.

**ACE PREPARATORY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

2017 – 004 State Board of Accounts Compliance Finding

Condition: The Academy did not retain receipt documents for all receipts as required.

Status: During our audit, we noted that receipts were not issued for five (5) of sixty (60) receipts tested. The five transactions that did not have receipts occurred prior to the planned corrective actions employed. Following the identification of this finding in the prior year, the planned corrective action was taken and no further issues were noted.

2017 – 005 State Board of Accounts Compliance Finding

Condition: The Academy did not retain appropriate supporting documentation for expenses as required.

Status: During our audit, we noted that one (1) of the sixty (60) expenses selected for sampling was not supported by appropriate documentation for an immaterial amount. The corrective action plan was taken.