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December 2, 2019

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

We have reviewed the audit report of Circle City Preparatory, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 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 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 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
Paul D. Joyce, CPA
State Examiner

CIRCLE CITY PREPARATORY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report
For the Years Ended June 30, 2019 and 2018



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Change in Net Assets	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

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 statements of financial position as of June 30, 2019 and 2018, the related statements of activities and change in net assets, 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 Circle City Preparatory, Inc. as of June 30, 2019 and 2018, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent "D" at the beginning.

Indianapolis, Indiana

November 22, 2019

CIRCLE CITY PREPARATORY, INC.**STATEMENTS OF FINANCIAL POSITION**

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 368,372	\$ 110,435
Grants receivable	<u>82,451</u>	<u>43,993</u>
<i>Total current assets</i>	<u>450,823</u>	<u>154,428</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	41,290	41,290
Less: accumulated depreciation	<u>(16,516)</u>	<u>(8,258)</u>
<i>Property and equipment, net</i>	<u>24,774</u>	<u>33,032</u>
OTHER ASSETS		
Security deposit	<u>10,000</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 485,597</u>	<u>\$ 187,460</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of note payable	\$ 23,356	\$ 22,082
Accounts payable and accrued expenses	<u>128,353</u>	<u>48,615</u>
<i>Total current liabilities</i>	151,709	70,697
LONG-TERM LIABILITIES		
Note payable, net of current portion	<u>55,342</u>	<u>78,698</u>
<i>Total liabilities</i>	207,051	149,395
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>278,546</u>	<u>38,065</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 485,597</u>	<u>\$ 187,460</u>

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

CIRCLE CITY PREPARATORY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT				
State education support	\$ 1,025,102	\$ 603,307	\$ -	\$ 603,307
Grant revenue	629,350	127,679	-	127,679
Contributions	25,058	28,480	-	28,480
Other income	19,460	24,293	-	24,293
Net assets released from restrictions	<u>-</u>	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>
<i>Total revenue and support</i>	<u>1,698,970</u>	<u>883,759</u>	<u>(100,000)</u>	<u>783,759</u>
EXPENSES				
Program services	1,183,367	816,207	-	816,207
Management and general	<u>275,122</u>	<u>231,942</u>	<u>-</u>	<u>231,942</u>
<i>Total expenses</i>	<u>1,458,489</u>	<u>1,048,149</u>	<u>-</u>	<u>1,048,149</u>
CHANGE IN NET ASSETS	240,481	(164,390)	(100,000)	(264,390)
NET ASSETS, BEGINNING OF YEAR	<u>38,065</u>	<u>202,455</u>	<u>100,000</u>	<u>302,455</u>
NET ASSETS, END OF YEAR	<u>\$ 278,546</u>	<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.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>			<u>2018</u>		
	<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	\$ 380,399	\$ 166,326	\$ 546,725	\$ 273,145	\$ 126,571	\$ 399,716
Employee benefits	62,670	11,223	73,893	20,924	13,729	34,653
Staff development	64,961	-	64,961	42,912	-	42,912
Professional services	120,025	14,856	134,881	25,469	51,837	77,306
Repairs and maintenance	44,956	-	44,956	33,735	-	33,735
Food service	97,626	-	97,626	58,881	-	58,881
Travel	13,558	4,485	18,043	2,692	2,608	5,300
Equipment	76,246	-	76,246	50,690	-	50,690
Classroom, kitchen, and office supplies	47,144	22,409	69,553	35,505	12,041	47,546
Occupancy	207,361	-	207,361	183,245	-	183,245
Information technology services	7,321	-	7,321	5,682	-	5,682
Depreciation	8,258	-	8,258	8,258	-	8,258
Interest	6,043	-	6,043	4,158	-	4,158
Authorizer oversight fee	-	2,489	2,489	-	1,028	1,028
Insurance	18,120	-	18,120	16,231	-	16,231
Advertising	-	37,536	37,536	-	2,933	2,933
Other	28,679	15,798	44,477	54,680	21,195	75,875
<i>Total functional expenses</i>	<u>\$ 1,183,367</u>	<u>\$ 275,122</u>	<u>\$ 1,458,489</u>	<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.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 240,481	\$ (264,390)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,258	8,258
Changes in certain assets and liabilities:		
Grants receivable	(38,458)	(43,993)
Security deposit	(10,000)	-
Accounts payable and accrued expenses	<u>79,738</u>	<u>40,344</u>
<i>Net cash provided by (used in) operating activities</i>	280,019	(259,781)
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(38,530)
FINANCING ACTIVITIES		
Principal repayment on note payable	<u>(22,082)</u>	<u>(17,470)</u>
NET CHANGE IN CASH	257,937	(315,781)
CASH, BEGINNING OF YEAR	<u>110,435</u>	<u>426,216</u>
CASH, END OF YEAR	<u>\$ 368,372</u>	<u>\$ 110,435</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 6,043	\$ 4,158

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

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 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 2018-2019 school year, the School served approximately 130 students in kindergarten through second 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 – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

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.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2019 and 2018.

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.

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 years ended June 30, 2019 and 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 November 22, 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 - LEASE

The School leases its building under an operating lease agreement through June 30, 2020. 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 has a security deposit related to this lease of \$10,000. The building lease agreement is renewable by mutual consent. The School also leases various equipment items. Total lease expense was \$207,361 and \$183,245 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$	252,007
2021		221

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 3 - NOTE PAYABLE

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

	<u>2019</u>	<u>2018</u>
Note payable to IFF, payable in monthly installments of \$2,266, including interest at 5.625% per annum, secured by substantial all School assets	\$ 78,698	\$ 100,780
Less: current portion	<u>(23,356)</u>	<u>(22,082)</u>
Long-term portion	<u>\$ 55,342</u>	<u>\$ 78,698</u>

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

2020	\$ 23,356
2021	24,704
2022	26,130
2023	<u>4,508</u>
	<u>\$ 78,698</u>

NOTE 4 - 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 contributed \$15,789 and \$12,953 to the plan for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 - 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 the charter agreement were \$2,489 and \$1,028 for the years ended June 30, 2019 and 2018, respectively.

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 6 - 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. Cash balances at the end of the year and periodically throughout the year exceeded the FDIC insured limit.

NOTE 7 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 totaled \$450,823. The entire balance of financial assets was available to meet general expenditures within one year.

From time to time, the School receives donor-restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

CIRCLE CITY PREPARATORY, INC.
OTHER REPORT
For the Year Ended June 30, 2019

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*.