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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

December 2, 2019

Charter School Board
Allegiant Preparatory, Inc.
3125 Concord Ct., Suite B
Indianapolis, IN 46222

We have reviewed the audit report of Allegiant 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 Allegiant 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 Allegiant 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

ALLEGIANT PREPARATORY, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Year Ended June 30, 2019



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Allegiant Preparatory, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Allegiant Preparatory, Inc., which comprise the statement of financial position as of June 30, 2019, the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allegiant Preparatory, Inc. as of June 30, 2019, and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and connected, with a prominent loop at the end of the word.

Indianapolis, Indiana

November 25, 2019

ALLEGIANT PREPARATORY, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 55,869
Grants receivable	63,557
Prepaid expenses	<u>5,179</u>
<i>Total current assets</i>	<u>124,605</u>

PROPERTY AND EQUIPMENT

Furniture and equipment	56,014
Leasehold improvements	94,454
Less: accumulated depreciation	<u>(36,611)</u>
<i>Property and equipment, net</i>	<u>113,857</u>

OTHER ASSETS

Security deposit	<u>7,769</u>
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TOTAL ASSETS

\$ 246,231

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of note payable	\$ 17,426
Due to landlord	16,598
Accounts payable and accrued expenses	<u>29,236</u>
<i>Total current liabilities</i>	<u>63,260</u>

LONG-TERM LIABILITIES

Note payable, net of current portion	67,871
Due to landlord	<u>5,418</u>

<i>Total long-term liabilities</i>	<u>73,289</u>
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<i>Total liabilities</i>	136,549
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NET ASSETS, WITHOUT DONOR RESTRICTIONS

109,682

TOTAL LIABILITIES AND NET ASSETS

\$ 246,231

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

ALLEGIANT PREPARATORY, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2019

REVENUE AND SUPPORT

State education support	\$ 315,634
Grant revenue	262,599
Contributions	810
Interest income	390
Other income	<u>19,665</u>

<i>Total revenue and support</i>	<u>599,098</u>
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EXPENSES

Program services	364,980
Management and general	<u>361,436</u>

<i>Total expenses</i>	<u>726,416</u>
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CHANGE IN NET ASSETS	(127,318)
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NET ASSETS, BEGINNING OF YEAR	<u>237,000</u>
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NET ASSETS, END OF YEAR	<u><u>\$ 109,682</u></u>
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See independent auditors' report and accompanying notes to the financial statements

ALLEGIANT PREPARATORY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 134,547	\$ 204,301	\$ 338,848
Employee benefits	9,310	22,755	32,065
Staff development	26,742	-	26,742
Professional services	12,916	88,625	101,541
Repairs and maintenance	3,681	-	3,681
Food costs	38,363	-	38,363
Travel and meetings	1,674	2,074	3,748
Equipment	6,340	9,724	16,064
Classroom and office supplies	41,296	4,119	45,415
Occupancy	30,121	-	30,121
Depreciation	36,611	-	36,611
Information technology	17,988	-	17,988
Interest	4,691	-	4,691
Insurance	-	15,739	15,739
Advertising	-	13,507	13,507
Other	700	592	1,292
	<u>700</u>	<u>592</u>	<u>1,292</u>
<i>Total functional expenses</i>	<u>\$ 364,980</u>	<u>\$ 361,436</u>	<u>\$ 726,416</u>

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

ALLEGIANT PREPARATORY, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019

OPERATING ACTIVITIES

Change in net assets	\$ (127,318)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	36,611
Change in certain assets and liabilities:	
Grants receivable	(63,557)
Prepaid expenses	(5,179)
Accounts payable and accrued expenses	<u>9,459</u>
<i>Net cash used in operating activities</i>	<u>(149,984)</u>

INVESTING ACTIVITIES

Purchases of property and equipment	<u>(56,330)</u>
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FINANCING ACTIVITIES

Proceeds from note payable	95,000
Principal payments on note payable	(9,703)
Repayment of amount due to landlord	<u>(11,667)</u>
<i>Net cash provided by financing activities</i>	<u>73,630</u>

NET CHANGE IN CASH

(132,684)

CASH, BEGINNING OF YEAR

188,553

CASH, END OF YEAR

\$ 55,869

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 4,691
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See independent auditors' report and accompanying notes to the financial statements

ALLEGIANT PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Allegiant Preparatory, Inc. (the “School”) is 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, 2018 under Indiana Code 20-24. The School served approximately 40 students in kindergarten and first grade during the 2018-2019 school year. The School has enrollment of approximately 70 students in kindergarten through second grade for the 2019-2020 school year.

Financial Statement Presentation – 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 the liquidity of financial assets.

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 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 significant 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.

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

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases of less than \$5,000 individually, or as a group of assets, are charged to expense as incurred.

Furniture and equipment are depreciated using the straight-line method over the respective asset’s estimated useful life (ranging from 3-5 years). Leasehold improvements are depreciated using the straight-line method over the life of the lease (through June 30, 2022).

ALLEGIANT PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Allegiant Preparatory, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2019, 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 2018-2019, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 25, 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 - PRIOR PERIOD FINANCIAL ACTIVITY

Prior to the School's initial year of operations, the School received income in the form of contributions of approximately \$425,000 to fund startup costs. The School used these funds to purchase textbooks and other startup expenses. As of July 1, 2018, the School had cash of \$188,553, accounts receivable of \$33,683, security deposit of \$7,769, property and equipment of \$27,021, construction in progress of \$33,434, accounts payable of \$19,777, due to landlord of \$33,683, and net assets of \$237,000.

NOTE 3 - NOTE PAYABLE

The note payable at June 30, 2019 was comprised of:

Note payable to IFF, payable in monthly installments of \$1,831 including interest at 5.875% per annum until November 2023.	\$	85,297
Less: current portion		<u>(17,426)</u>
Long-term portion	\$	<u>67,871</u>

ALLEGIANT PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 3 - NOTE PAYABLE, Continued

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

2020	\$	17,426
2021		18,478
2022		19,593
2023		20,776
2024		<u>9,024</u>
	\$	<u>85,297</u>

NOTE 4 - DUE TO LANDLORD

Effective May 8, 2018, the School received an advance from the landlord to pay for tenant leasehold improvements. The School received \$33,683. The advance is non-interest bearing and calls for 24 monthly payments, beginning January 2019. Total repayments for the year ended June 30, 2019 were \$11,667.

A schedule of minimum repayments are as follows for the years ending June 30:

2020	\$	16,598
2021		5,418

NOTE 5 - RETIREMENT PLAN

The School offers a 403(b) defined contribution retirement plan. All employees are eligible for benefits under the 403(b) plan. To receive matching contributions, employees must be 21 years old, have 1,000 hours of service, and be employed on the last day of the Plan year. Under the 403(b) plan, the School contributes 3% of eligible employee's defined compensation.

Total contribution to the 403(b) plan were \$8,164 during the year ended June 30, 2019.

NOTE 6 - COMMITMENTS

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 to ICSB an administrative fee equal to 0.5% of revenues received after six months of operation. Payments under this charter agreement were \$261 for the year ended June 30, 2019. The charter remains in effect until June 2023 and is renewable thereafter by mutual consent.

ALLEGIANT PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides education instruction services to families primarily 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 National Bank of Indianapolis are insured up to the FDIC insurance limit.

NOTE 8 - LEASES

The School leases office equipment and the building under operating leases that expire in fiscal year 2022. Total lease expense for the year ended June 30, 2019 was \$67,260.

A schedule of minimum lease obligations are as follows for the years ending June 30:

2020	\$	69,815
2021		69,815
2022		64,706

NOTE 9 - 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 total \$119,426, all of which are available to meet cash needs for general expenditures within a 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 10 - 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. 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.

ALLEGIANT PREPARATORY ACADEMY, 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 Allegiant 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*.