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December 23, 2019


Charter School Board
Seven Oaks Classical School, Inc.
200 E. Association Street
Ellettsville, IN 47429

We have reviewed the audit report of Seven Oaks Classical School, 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 Seven Oaks Classical School, 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 Seven Oaks Classical School, 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, CPA
State Examiner

SEVEN OAKS CLASSICAL SCHOOL, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Seven Oaks Classical School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Seven Oaks Classical School, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and change in net deficit, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on 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 Seven Oaks Classical School, Inc. as of June 30, 2019 and 2018, and the changes in its net deficit, 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 on Prior Period Adjustment

As discussed in Note 9 of the accompanying financial statements, management determined its prior treatment of employer contributions to the 403(b) defined contribution retirement plan was improper. Net deficits as of July 1, 2017 and June 30, 2018 have been increased by \$43,329 and \$50,222, respectively.

DONOVAN

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

Indianapolis, Indiana
December 13, 2019

SEVEN OAKS CLASSICAL SCHOOL, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 101,146	\$ 66,352
Prepaid expenses	9,600	-
	<hr/>	<hr/>
<i>Total current assets</i>	110,746	66,352
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Land	297,500	297,500
Building and improvements	2,429,537	2,270,880
Equipment	8,990	-
Less: accumulated depreciation	(198,105)	(117,544)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	2,537,922	2,450,836
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 2,648,668</u>	<u>\$ 2,517,188</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 266,356	\$ 235,679
Line of credit	40,000	40,000
Accounts payable and accrued expenses	206,529	189,610
Refundable advances	-	14,290
	<hr/>	<hr/>
<i>Total current liabilities</i>	512,885	479,579
	<hr/>	<hr/>
NOTES PAYABLE, NET OF CURRENT PORTION	2,268,634	2,403,594
	<hr/>	<hr/>
<i>Total liabilities</i>	2,781,519	2,883,173
	<hr/>	<hr/>
NET DEFICIT, WITHOUT DONOR RESTRICTIONS	(132,851)	(365,985)
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 2,648,668</u>	<u>\$ 2,517,188</u>

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

SEVEN OAKS CLASSICAL SCHOOL, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIT
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
State education support	\$ 2,232,910	\$ 1,507,795
Grant revenue	555,722	202,649
Contributions	10,955	-
Other income	65,432	112,945
	<u>2,865,019</u>	<u>1,823,389</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	2,002,446	1,451,971
Management and general	629,439	389,995
	<u>2,631,885</u>	<u>1,841,966</u>
<i>Total expenses</i>		
CHANGE IN NET DEFICIT	233,134	(18,577)
NET DEFICIT, BEGINNING OF YEAR	<u>(365,985)</u>	<u>(347,408)</u>
NET DEFICIT, END OF YEAR	<u>\$ (132,851)</u>	<u>\$ (365,985)</u>

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

SEVEN OAKS CLASSICAL SCHOOL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	<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	\$ 1,042,536	\$ 385,636	\$ 1,428,172	\$ 759,314	\$ 199,332	\$ 958,646
Employee benefits	256,255	68,213	324,468	214,393	26,521	240,914
Staff development	7,635	-	7,635	9,086	-	9,086
Professional services	127,450	101,122	228,572	60,566	87,152	147,718
Authorizer oversight fees	-	44,930	44,930	-	35,400	35,400
Travel	-	1,231	1,231	5,837	-	5,837
Equipment	6,360	-	6,360	2,690	-	2,690
Classroom and office supplies	179,827	15,781	195,608	47,459	32,681	80,140
Occupancy	129,493	10,975	140,468	124,130	5,445	129,575
Depreciation	80,561	-	80,561	75,696	-	75,696
Information technology	80,231	-	80,231	33,701	-	33,701
Interest	67,107	-	67,107	57,471	-	57,471
Insurance	20,496	-	20,496	17,981	-	17,981
Other	4,495	1,551	6,046	43,647	3,464	47,111
<i>Total functional expenses</i>	<u>\$ 2,002,446</u>	<u>\$ 629,439</u>	<u>\$ 2,631,885</u>	<u>\$ 1,451,971</u>	<u>\$ 389,995</u>	<u>\$ 1,841,966</u>

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

SEVEN OAKS CLASSICAL SCHOOL, 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 deficit	\$ 233,134	\$ (18,577)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	80,561	75,696
Change in certain assets and liabilities:		
Grants receivable	-	14,805
Prepaid expenses	(9,600)	-
Accounts payable and accrued expenses	16,919	42,107
Refundable advances	<u>(14,290)</u>	<u>(15,335)</u>
 <i>Net cash provided by operating activities</i>	 <u>306,724</u>	 <u>98,696</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(167,647)</u>	<u>-</u>
FINANCING ACTIVITIES		
Proceeds from line of credit	-	40,000
Proceeds from note payable	155,000	-
Principal payments on notes payable	<u>(259,283)</u>	<u>(140,149)</u>
 <i>Net cash used in financing activities</i>	 <u>(104,283)</u>	 <u>(100,149)</u>
NET CHANGE IN CASH	34,794	(1,453)
CASH, BEGINNING OF YEAR	<u>66,352</u>	<u>67,805</u>
CASH, END OF YEAR	<u>\$ 101,146</u>	<u>\$ 66,352</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 68,107	\$ 65,163

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

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Seven Oaks Classical School, Inc. (the “School”) is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Grace College. During the 2018-2019 academic year, the School served approximately 310 students in kindergarten through tenth grade.

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 deficit 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 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 and 2018.

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 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Building and improvements are depreciated over 30 years and equipment is depreciated over 5 years.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – The School 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. The tax years ending after 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 13, 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 consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Note payable to State Board of Education, payable \$100,000 semi-annually (January 1 and July 1) plus interest at 1% per annum until July 2027	\$ 1,700,000	\$ 1,900,000
Note payable to IFF, payable \$6,484 monthly, including interest at 5.375% per annum until December 2021	700,446	739,273
Note payable to IFF, payable \$2,988 monthly, including interest at 5.875% per annum until September 2023	134,544	-
	2,534,990	2,639,273
Less: current portion	(266,356)	(235,679)
Long-term portion	\$ 2,268,634	\$ 2,403,594

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School's future tuition support payments on the School's basic grant.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 2 - NOTES PAYABLE, Continued

The IFF notes payable are secured by the mortgage of the building and financed equipment.

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

2020	\$	266,356
2021		273,678
2022		851,849
2023		234,230
2024		208,877
Thereafter		700,000
	\$	2,534,990

NOTE 3 - LINE OF CREDIT

The School has an \$80,000 revolving line of credit with Owens County State Bank that matures on July 26, 2020. Drawings against the line of credit bear interest at the bank’s prime rate plus 1% (a total of 6.5% at June 30, 2019) and are secured by all school assets. The balance was on the line of credit was \$40,000 as of June 30, 2019 and 2018.

NOTE 4 - RETIREMENT PLAN

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers’ Retirement Fund (“TRF”), which is a cost-sharing multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System (“INPRS”) Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plan, the School contributes 7.5% of compensation for electing teaching faculty to TRF. Should the School elect to withdraw from TRF, it could be subject to a withdrawal fee. The School’s contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2018 (the latest year reported), TRF was more than 80% funded.

The School also offers a 403(b) defined contribution retirement plan. Non-teaching personnel and teachers who opt to not participate in TRF are eligible for benefits under the 403(b) plan. Under the 403(b) plan, the School contributes 7.5% of each employee’s defined compensation.

Retirement plan expense was \$83,129 and \$53,876 for the years ended June 30, 2019 and 2018, respectively.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Grace College. As the sponsoring organization, Grace College exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Grace College an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were \$44,930 and \$34,500 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until September 2023 and is renewable thereafter by mutual consent.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides education instruction services to families primarily residing in Ellettsville, Indiana and greater Monroe County, 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 Owen County State Bank are insured up to the FDIC insurance 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. At June 30, 2019, the School's financial assets consists of cash and totals \$101,146.

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. The School has an \$80,000 line of credit as of June 30, 2019, of which \$40,000 is available to meet future financial obligations.

NOTE 8 - 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 net deficit. 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.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 9 - PRIOR PERIOD ADJUSTMENT

Net deficits as of July 1, 2017 and June 30, 2018 have been adjusted to properly account for the fiscal years June 30, 2017 and 2018 employer contributions to the 403(b) defined contribution retirement plan. The plan's employer contributions for both years were paid during the year ended June 30, 2019, but were not previously reflected in accounts payable at June 30, 2017 and 2018. This amounted to \$43,329 and \$50,222 for the years ended June 30, 2017 and June 30, 2018, respectively.

Management has reviewed its treatment and determined a prior period adjustment is required to properly reflect the employer contribution. Net deficits as of July 1, 2017 and June 30, 2018 have been increased by \$43,329 and \$50,222, respectively.

NOTE 10 - SUBSEQUENT EVENT

Subsequent to the year ended June 30, 2019, the School purchased an adjacent property for \$181,000 with available cash and a \$144,800 note payable to Owen County State Bank. Monthly note payments are \$1,044, including an initial interest rate at 6% per annum, until July 24, 2039. The School leases the property to a third party through an agreement that expires July 31, 2020.

SEVEN OAKS CLASSICAL SCHOOL, 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 Seven Oaks Classical School, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.