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January 9, 2020

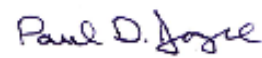
Charter School Board
Ace Preparatory, Inc.
5326 Hillside Ave.,
Indianapolis, IN 46220

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

Report on the Financial Statements

We have audited the accompanying financial statements of ACE Preparatory, Inc., which comprise the statement of financial position as of June 30, 2019 and 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.

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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, 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 slightly slanted to the right.

Indianapolis, Indiana
December 18, 2019

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

ASSETS

CURRENT ASSETS

Cash	\$	31,797
Grants receivable		40,510
Prepaid expense		9,000
		81,307
<i>Total current assets</i>		81,307

PROPERTY AND EQUIPMENT

Leasehold improvements		123,945
Furniture and equipment		239,141
Less: accumulated depreciation		(127,138)
		235,948
<i>Property and equipment, net</i>		235,948

TOTAL ASSETS

\$ 317,255

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Line of credit	\$	188,001
Accounts payable and accrued expenses		70,169
Due to landlord		40,921
		299,091
<i>Total current liabilities</i>		299,091

NET ASSETS, WITHOUT DONOR RESTRICTIONS

18,164

TOTAL LIABILITIES AND NET ASSETS

\$ 317,255

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

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

REVENUE AND SUPPORT

State education support	\$ 622,952
Grant revenue	310,865
Contributions	43,632
Interest income	289
Other income	<u>16,504</u>
 <i>Total revenue and support</i>	 <u>994,242</u>

EXPENSES

Program services	923,337
Management and general	<u>241,150</u>
 <i>Total expenses</i>	 <u>1,164,487</u>

CHANGE IN NET ASSETS

(170,245)

NET ASSETS, BEGINNING OF YEAR

188,409

NET ASSETS, END OF YEAR

\$ 18,164

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

ACE 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	\$ 360,195	\$ 116,575	\$ 476,770
Employee benefits	30,679	21,298	51,977
Occupancy	199,184	-	199,184
Professional services	121,184	37,314	158,498
Food costs	65,713	-	65,713
Depreciation	53,513	-	53,513
Information technology	26,872	-	26,872
Insurance	-	23,593	23,593
Community relations	-	15,277	15,277
Repairs and maintenance	39,136	-	39,136
Textbooks and equipment	15,205	-	15,205
Classroom and office supplies	9,055	4,113	13,168
Interest	-	7,641	7,641
Field trips	2,059	-	2,059
Travel	542	783	1,325
Other	-	14,556	14,556
	<u> </u>	<u> </u>	<u> </u>
<i>Total functional expenses</i>	<u>\$ 923,337</u>	<u>\$ 241,150</u>	<u>\$ 1,164,487</u>

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

ACE PREPARATORY, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

OPERATING ACTIVITIES

Change in net assets	\$ (170,245)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	53,513
Change in certain assets and liabilities:	
Grants receivable	(17,848)
Other receivables	19,547
Prepaid expenses	3,000
Accounts payable and accrued expenses	295
Due to landlord	<u>21,934</u>
<i>Net cash used in operating activities</i>	(89,804)

INVESTING ACTIVITIES

Purchases of property and equipment	(87,118)
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FINANCING ACTIVITIES

Net borrowings on the line of credit	<u>100,000</u>
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NET CHANGE IN CASH

(76,922)

CASH, BEGINNING OF YEAR

108,719

CASH, END OF YEAR

\$ 31,797

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 7,641
Leasehold improvements in due to landlord	85,000

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

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – ACE Preparatory, 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 under Indiana Code 20-24 and is sponsored by the Indiana Charter School Board. The charter remains in effect until June 30, 2020 and is renewable thereafter by mutual consent. During the 2018-2019 school year, the School served approximately 90 students in kindergarten through third 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 the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of July 1, 2018 has 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. Therefore, the School recognizes revenue under these grants in the amounts 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 state programs. 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 over \$1,000 and that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and small equipment purchases are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Leasehold improvements	5 - 20 years
Furniture and equipment	3 to 5 years

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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 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. Tax years after 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 18 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 - GOING CONCERN CONSIDERATION

The School did not meet enrollment expectations for the 2018-2019 school year resulting in expenses exceeding revenue and support by approximately \$170,000 and a net cash flow deficit from operations of approximately \$90,000. At June 30, 2019, the School's current liabilities exceeded current assets by \$218,000. In addition, the School borrowed an additional \$100,000 on its line of credit.

Enrollment for the 2019-2020 school year increased to 163 students (from 90), resulting in approximately \$500,000 more anticipated revenue and support in 2019-2020. The School's budget for the 2019-2020 school year, based on 163 students, reflects a surplus of cash flow of approximately \$39,000. With the increased enrollment and closely monitoring expenditures and cash flows, management believes the School will continue as a going concern.

NOTE 3 - LINE OF CREDIT

The School has a \$193,000 revolving line of credit with The National Bank of Indianapolis, of which \$188,001 was outstanding at June 30, 2019. Borrowings under the line bear interest at the bank's prime rate (5.5% at June 30, 2019) and is secured by substantially all assets of the School. The line matured on December 1, 2019. As of the date of the auditor's report, the School is negotiating the renewal of the line of credit.

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 4 - LEASE

The School leases its facility from an unrelated party. The lease calls for monthly lease payments of a minimum of \$12,000 through June 30, 2020. Any amount over \$12,000 paid by the School is deposited into an account with the landlord to be used by the School for 1) capital improvements, and 2) to offset the potential purchase of the property. In addition, the landlord may pay for certain maintenance and improvements up and beyond the amount the School has on deposit with the landlord. As of June 30, 2019, the landlord has funded maintenance and improvements above the deposit account, resulting in the School's liability to the landlord totaling \$40,921. The asset or liability will be settled between the School and the landlord at either the termination of the lease, or the purchase of the property by the School.

The School has an option to purchase the property for \$2,342,740 plus the amount of funds the landlord expends toward capital improvements and less the amount of deposit, if any, held by the landlord (for amounts the School pays in excess of \$12,000 per month).

NOTE 5 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Marion and surrounding counties in 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.

NOTE 6 - 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. The School's financial assets at June 30, 2019 total \$72,307, all of which are available to meet cash needs for general expenditures within the next 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 7 - 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.

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

The reports presented herein were prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Ace 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*.