



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B56123

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 9, 2020


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, 2019 to June 30, 2020. 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, 2020 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, 2020 and 2019



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets (Deficit)	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 11
 OTHER REPORT	 12



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, 2020 and 2019, and the related statements of activities and change in net assets (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.

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 Seven Oaks Classical School, Inc. as of June 30, 2020 and 2019, and the changes in its net assets (deficit), 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 dark ink that reads "DONOVAN". The letters are cursive and connected, with a prominent initial "D".

Indianapolis, Indiana
November 23, 2020

SEVEN OAKS CLASSICAL SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 349,682	\$ 101,146
Prepaid expenses	-	9,600
<i>Total current assets</i>	<u>349,682</u>	<u>110,746</u>
PROPERTY AND EQUIPMENT		
Land	333,810	297,500
Buildings and improvements	2,606,301	2,429,537
Equipment	8,990	8,990
Less: accumulated depreciation	<u>(286,565)</u>	<u>(198,105)</u>
<i>Property and equipment, net</i>	<u>2,662,536</u>	<u>2,537,922</u>
TOTAL ASSETS	<u><u>\$ 3,012,218</u></u>	<u><u>\$ 2,648,668</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 277,782	\$ 266,356
Line of credit	-	40,000
Accounts payable and accrued expenses	216,700	206,529
Refundable advance - CARES Act funding	<u>48,198</u>	<u>-</u>
<i>Total current liabilities</i>	542,680	512,885
NOTES PAYABLE, NET OF CURRENT PORTION	<u>2,129,068</u>	<u>2,268,634</u>
<i>Total liabilities</i>	2,671,748	2,781,519
NET ASSETS (DEFICIT), WITHOUT DONOR RESTRICTIONS	<u>340,470</u>	<u>(132,851)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u><u>\$ 3,012,218</u></u>	<u><u>\$ 2,648,668</u></u>

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

SEVEN OAKS CLASSICAL SCHOOL, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSET (DEFICIT)
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 2,304,789	\$ 2,232,910
Grant revenue	762,053	555,722
CARES Act funding	314,602	-
Contributions	6,923	10,955
Other income	<u>57,064</u>	<u>65,432</u>
<i>Total revenue and support</i>	<u>3,445,431</u>	<u>2,865,019</u>
EXPENSES		
Program services	2,271,630	2,002,446
Management and general	<u>700,480</u>	<u>629,439</u>
<i>Total expenses</i>	<u>2,972,110</u>	<u>2,631,885</u>
CHANGE IN NET ASSETS (DEFICIT)	473,321	233,134
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(132,851)</u>	<u>(365,985)</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 340,470</u>	<u>\$ (132,851)</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, 2020 and 2019

	2020			2019		
	<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	\$ 1,245,309	\$ 465,945	\$ 1,711,254	\$ 1,042,536	\$ 385,636	\$ 1,428,172
Employee benefits	305,299	82,111	387,410	256,255	68,213	324,468
Classroom and office supplies	182,148	16,690	198,838	179,827	15,781	195,608
Professional services	139,858	55,702	195,560	127,450	101,122	228,572
Occupancy	127,866	15,547	143,413	129,493	10,975	140,468
Depreciation	88,460	-	88,460	80,561	-	80,561
Information technology	71,461	-	71,461	80,231	-	80,231
Interest	69,470	-	69,470	67,107	-	67,107
Authorizer oversight fees	-	58,390	58,390	-	44,930	44,930
Insurance	21,684	-	21,684	20,496	-	20,496
Staff development	9,234	-	9,234	7,635	-	7,635
Equipment	8,117	-	8,117	6,360	-	6,360
Other	2,724	4,125	6,849	4,495	1,551	6,046
Travel	-	1,970	1,970	-	1,231	1,231
<i>Total functional expenses</i>	<u>\$ 2,271,630</u>	<u>\$ 700,480</u>	<u>\$ 2,972,110</u>	<u>\$ 2,002,446</u>	<u>\$ 629,439</u>	<u>\$ 2,631,885</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ 473,321	\$ 233,134
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation	88,460	80,561
Change in certain assets and liabilities:		
Prepaid expenses	9,600	(9,600)
Accounts payable and accrued expenses	10,171	16,919
Refundable advance	48,198	(14,290)
	<u>629,750</u>	<u>306,724</u>
<i>Net cash provided by operating activities</i>		
	<u>629,750</u>	<u>306,724</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(213,074)</u>	<u>(167,647)</u>
FINANCING ACTIVITIES		
Payments on line of credit	(40,000)	-
Proceeds from note payable	144,800	155,000
Principal payments on notes payable	<u>(272,940)</u>	<u>(259,283)</u>
	<u>(168,140)</u>	<u>(104,283)</u>
<i>Net cash used in financing activities</i>		
	<u>(168,140)</u>	<u>(104,283)</u>
NET CHANGE IN CASH	248,536	34,794
CASH, BEGINNING OF YEAR	<u>101,146</u>	<u>66,352</u>
CASH, END OF YEAR	<u>\$ 349,682</u>	<u>\$ 101,146</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 70,470	\$ 68,107

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, 2020 and 2019

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 2019-2020 academic year, the School served approximately 345 students in kindergarten through eleventh grade.

Basis of Accounting and Use of Estimates – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions - which include unrestricted resources that are available for the operating objectives of the School; and
- net assets with donor restrictions - which represent resources restricted by donors for specific time or purpose.

As of June 30, 2020 and 2019, the School had only net assets without donor restrictions.

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.

The School has elected to defer implementation of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

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, 2020 and 2019.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

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 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. Buildings and improvements are depreciated over 30 years and equipment is depreciated over 5 years.

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, 2020 and 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. The tax years ending after 2016 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 23, 2020, 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 - LINE OF CREDIT

The School had a \$80,000 revolving line of credit with Owen County State Bank that matured on July 26, 2020. Drawings against the line of credit bear interest at the bank's prime rate plus 1% (a total of 4.25% at June 30, 2020) and were secured by the School's assets. The balance on the line of credit was \$40,000 as of June 30, 2019. The line of credit had no balance as of June 30, 2020.

Effective August 2020, the School entered in to a \$200,000 revolving line of credit with Owen County State Bank that matures on August 28, 2021. Drawings against the line of credit bear interest at the bank's prime rate plus 1%.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2020</u>	<u>2019</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	\$ 1,500,000	\$ 1,700,000
Note payable to IFF, payable \$6,484 monthly, including interest at 5.375% per annum until December 2021	659,286	700,446
Note payable to IFF, payable \$2,988 monthly, including interest at 5.875% per annum until September 2023	105,833	134,544
Note payable to Owen County State Bank, payable \$1,044 monthly, including interest at 6% per annum until July 2039	141,731	-
	<u>2,406,850</u>	<u>2,534,990</u>
Less: current portion	<u>(277,782)</u>	<u>(266,356)</u>
Long-term portion	<u>\$ 2,129,068</u>	<u>\$ 2,268,634</u>

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.

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

The Owen County State Bank note payable is secured by the mortgage of the 121 E. Association Street property.

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

2021	\$ 277,782
2022	852,650
2023	238,833
2024	213,763
2025	205,188
Thereafter	<u>618,634</u>
	<u>\$ 2,406,850</u>

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - CARES ACT FUNDING AND REFUNDABLE ADVANCE

On April 23, 2020, the School was granted a loan from Old National Bank in the amount of \$362,800, pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act. The note matures on April 23, 2022 and bears interest at a rate of 1.00%. Under the terms of the Paycheck Protection Program, the loan funds will be forgiven if they are used for qualifying expenses as described in the CARES Act. The School has evaluated the expenses to which these funds were applied through June 30, 2020, and has determined the loan requirements have been met for these expenses. The expenses incurred through June 30, 2020 amounted to \$314,602 and are recognized as a contribution. The remaining funds not spent consist of \$48,198, and are recorded as a refundable advance as of June 30, 2020. The School has elected to recognize the funds in accordance with FASB ASC 958-605 reflecting the amount spent as revenue and amount unspent as a refundable advance during the year ended June 30, 2020. Subsequent to year end, the School was notified by Old National Bank that the PPP loan has been forgiven in full.

NOTE 5 - 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, 2019 (the latest year reported), TRF was more than 90% 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 \$84,798 and \$83,129 for the years ended June 30, 2020 and 2019, respectively.

NOTE 6 - 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 \$58,390 and \$44,930 for the years ended June 30, 2020 and 2019, respectively. The charter remains in effect until September 2023 and is renewable thereafter by mutual consent.

SEVEN OAKS CLASSICAL SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 7 - 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 8 - LIQUIDITY

The only financial asset held by the School is cash. Financial assets available to meet cash needs for general expenditures within one year totaled \$349,682 and \$101,146 as of June 30, 2020 and 2019, respectively.

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. In addition, the School has a \$200,000 line of credit available to meet future financial obligations.

NOTE 9 - 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 assets (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.
OTHER REPORT
For the Year Ended June 30, 2020

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*.