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January 15, 2021

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



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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, 2020 and 2019, and 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, net assets as of June 30, 2019 have been adjusted to correct an error pertaining to grant revenues that should have been recognized during the year ended June 30, 2019 in the amount of \$38,021. This correction is reflected in the accompanying financial statements as an increase in grants revenue during the year ended June 30, 2019, a corresponding increase in grants receivable as of June 30, 2019, and an increase in net assets as of June 30, 2019. Our opinion is not modified with respect to this matter.

DONOVAN

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

Indianapolis, Indiana
December 15, 2020

CIRCLE CITY PREPARATORY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 601,957	\$ 368,372
Grants receivable	<u>172,538</u>	<u>120,472</u>
<i>Total current assets</i>	<u>774,495</u>	<u>488,844</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	73,663	41,290
Furniture and equipment	32,633	-
Less: accumulated depreciation	<u>(26,097)</u>	<u>(16,516)</u>
<i>Property and equipment, net</i>	<u>80,199</u>	<u>24,774</u>
OTHER ASSETS		
Security deposit	<u>10,000</u>	<u>10,000</u>
TOTAL ASSETS	<u><u>\$ 864,694</u></u>	<u><u>\$ 523,618</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of note payable	\$ 24,589	\$ 23,356
Accounts payable and accrued expenses	156,590	128,353
Refundable advance - CARES Act funding	8,677	-
Refundable advance - other	<u>9,251</u>	<u>-</u>
<i>Total current liabilities</i>	199,107	151,709
LONG-TERM LIABILITIES		
Note payable, net of current portion	<u>32,650</u>	<u>55,342</u>
<i>Total liabilities</i>	231,757	207,051
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>632,937</u>	<u>316,567</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 864,694</u></u>	<u><u>\$ 523,618</u></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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 1,410,866	\$ 1,025,102
Grant revenue	780,915	667,371
Contributions	67,812	25,058
CARES Act funding	146,346	-
Other income	25,856	19,460
	<u>2,431,795</u>	<u>1,736,991</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	1,603,643	1,183,367
Management and general	511,782	275,122
	<u>2,115,425</u>	<u>1,458,489</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	316,370	278,502
NET ASSETS, BEGINNING OF YEAR	<u>316,567</u>	<u>38,065</u>
NET ASSETS, END OF YEAR	<u>\$ 632,937</u>	<u>\$ 316,567</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, 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	\$ 582,303	\$ 347,565	\$ 929,868	\$ 380,399	\$ 166,326	\$ 546,725
Occupancy	270,269	-	270,269	207,361	-	207,361
Classroom, kitchen, and office supplies	130,296	32,095	162,391	47,144	22,409	69,553
Professional services	93,603	62,882	156,485	120,025	14,856	134,881
Employee benefits	128,795	44,104	172,899	62,670	11,223	73,893
Food service	107,804	-	107,804	97,626	-	97,626
Equipment	71,932	-	71,932	76,246	-	76,246
Repairs and maintenance	62,992	-	62,992	44,956	-	44,956
Curriculum	51,867	-	51,867	28,679	-	28,679
Staff development	48,368	-	48,368	64,961	-	64,961
Travel	17,304	518	17,822	13,558	4,485	18,043
Insurance	16,732	-	16,732	18,120	-	18,120
Depreciation	9,581	-	9,581	8,258	-	8,258
Information technology services	6,255	-	6,255	7,321	-	7,321
Advertising	-	3,981	3,981	-	37,536	37,536
Authorizer oversight fee	-	3,682	3,682	-	2,489	2,489
Interest	3,486	-	3,486	6,043	-	6,043
Other	2,056	16,955	19,011	-	15,798	15,798
	<u>\$ 1,603,643</u>	<u>\$ 511,782</u>	<u>\$ 2,115,425</u>	<u>\$ 1,183,367</u>	<u>\$ 275,122</u>	<u>\$ 1,458,489</u>
<i>Total functional expenses</i>	<u>\$ 1,603,643</u>	<u>\$ 511,782</u>	<u>\$ 2,115,425</u>	<u>\$ 1,183,367</u>	<u>\$ 275,122</u>	<u>\$ 1,458,489</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 316,370	\$ 278,502
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,581	8,258
Changes in certain assets and liabilities:		
Grants receivable	(52,066)	(76,479)
Security deposit	-	(10,000)
Accounts payable and accrued expenses	28,237	79,738
Refundable advance - CARES Act funding	8,677	-
Refundable advance - other	9,251	-
	<hr/>	<hr/>
<i>Net cash provided by operating activities</i>	320,050	280,019
INVESTING ACTIVITIES		
Purchases of property and equipment	(65,006)	-
FINANCING ACTIVITIES		
Principal repayment on note payable	<hr/> (21,459)	<hr/> (22,082)
NET CHANGE IN CASH	233,585	257,937
CASH, BEGINNING OF YEAR	<hr/> 368,372	<hr/> 110,435
CASH, END OF YEAR	<hr/> <u>\$ 601,957</u>	<hr/> <u>\$ 368,372</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 3,486	\$ 6,043

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, 2020 and 2019

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. The School is sponsored by the Indiana Charter School Board (“ICSB”). The charter remains in effect until June 30, 2022 and is renewable thereafter by mutual consent. During the 2019-2020 school year, the School served approximately 175 students in kindergarten through third grade. 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.

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 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.

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 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 using the straight-line method. The estimated useful lives generally are as follows:

Leasehold improvements	5 years
Furniture and equipment	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 December 15, 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.

Subsequent to June 30, 2020, the School signed a letter of intent to purchase two parcels of land, plus a building for an approximate purchase price of \$3,250,000. To purchase, the School is seeking financing via a bond offering. The date of closing is intended to be on or before December 31, 2020.

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 2 - PRIOR PERIOD ADJUSTMENT

Net assets as of June 30, 2019 have been adjusted to correct grant revenues that should have been recognized during the year ended June 30, 2019. The amount of the adjustment is \$38,021 which is reflected in the accompanying financial statements as an increase in grants revenue during the year ended June 30, 2019, a corresponding increase in grants receivable as of June 30, 2019, and an increase in net assets as of June 30, 2019.

NOTE 3 - CARES ACT FUNDING AND REFUNDABLE ADVANCE

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which includes the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from the PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On April 29, 2020, the School was granted a loan from The National Bank of Indianapolis in the amount of \$117,200, pursuant to the PPP under Division A, Title I of the CARES Act. The note matures on April 29, 2022 and bears interest at a rate of 1.00%. Under the terms of the PPP, 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 will be met and therefore forgiven for the \$108,523 in allowable expenses incurred through June 30, 2020. The School has elected to recognize the funds as a contribution in accordance with FASB ASC 958-605 by reflecting the amount of funds expended during the year ended June 30, 2020 as revenue. The remaining unspent portion of \$8,677 is reflected as a refundable advance until such time as the funds can be spent for an allowable purpose.

The School also received additional CARES Act grants totaling \$37,823 during the year ended June 30, 2020.

NOTE 4 - NOTE PAYABLE

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

	<u>2020</u>	<u>2019</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	\$ 57,239	\$ 78,698
Less: current portion	<u>(24,589)</u>	<u>(23,356)</u>
Long-term portion	<u>\$ 32,650</u>	<u>\$ 55,342</u>

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - NOTE PAYABLE, Continued

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

2021	\$	24,589
2022		26,008
2023		<u>6,642</u>
	\$	<u>57,239</u>

NOTE 5 - LEASE

The School leases its building under an operating lease agreement through June 30, 2021. 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, all of which expire during the year ended June 30, 2021. Total lease expense was \$270,269 and \$207,361 for the years ended June 30, 2020 and 2019, respectively.

Total minimum lease payments for the above leases during the year ending June 30, 2021 are \$297,472.

NOTE 6 - COMMITMENT

The School operates under a charter granted by the 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 \$3,682 and \$2,489 for the years ended June 30, 2020 and 2019, respectively.

The charter agreement requires the School to establish an escrow of no less than \$30,000 should a dissolution occur. As of June 30, 2020, this account has not been established.

NOTE 7 - 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 \$25,080 and \$15,789 to the plan for the years ended June 30, 2020 and 2019, respectively.

CIRCLE CITY PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 8 - 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 9 - LIQUIDITY

Financial assets held by the School include cash and grants receivable. Financial assets available to meet cash needs for general expenditures within one year totaled \$774,495 and \$488,844 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.

NOTE 10 - 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, 2020

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*.