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December 21, 2021


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, 2020 to June 30, 2021. 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, 2021 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 Years Ended June 30, 2021 and 2020



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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 statements of financial position as of June 30, 2021 and 2020 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 ACE Preparatory, Inc. as of June 30, 2021 and 2020 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.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and somewhat stylized, with the "D" being particularly large and the "V" having a sharp hook.

Indianapolis, Indiana
November 17, 2021

ACE PREPARATORY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 138,109	\$ 14,778
Grants receivable	110,154	30,480
Prepaid expenses	<u>11,079</u>	<u>12,595</u>
<i>Total current assets</i>	<u>259,342</u>	<u>57,853</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	133,670	133,670
Furniture and equipment	278,093	260,226
Less: accumulated depreciation	<u>(281,903)</u>	<u>(201,184)</u>
<i>Property and equipment, net</i>	<u>129,860</u>	<u>192,712</u>
TOTAL ASSETS	<u><u>\$ 389,202</u></u>	<u><u>\$ 250,565</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 76,030	\$ 81,913
Due to Charter School Capital, Inc.	<u>154,000</u>	<u>66,800</u>
<i>Total current liabilities</i>	230,030	148,713
LONG TERM LIABILITY		
Due to landlord	<u>66,943</u>	<u>66,943</u>
<i>Total liabilities</i>	296,973	215,656
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>92,229</u>	<u>34,909</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 389,202</u></u>	<u><u>\$ 250,565</u></u>

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

ACE PREPARATORY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUE AND SUPPORT		
State education support	\$ 1,152,478	\$ 1,095,986
Grant revenue	476,707	315,652
CARES Act funding	31,010	17,388
Contributions	43,253	44,139
Interest income	45	124
Other income	<u>7,573</u>	<u>6,777</u>
<i>Total revenue and support</i>	<u>1,711,066</u>	<u>1,480,066</u>
EXPENSES		
Program services	1,330,890	1,244,403
Management and general	<u>322,856</u>	<u>296,718</u>
<i>Total expenses</i>	<u>1,653,746</u>	<u>1,541,121</u>
CHANGE IN NET ASSETS FROM OPERATIONS	57,320	(61,055)
PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS INCOME	<u>-</u>	<u>77,800</u>
CHANGE IN NET ASSETS	57,320	16,745
NET ASSETS, BEGINNING OF YEAR	<u>34,909</u>	<u>18,164</u>
NET ASSETS, END OF YEAR	<u>\$ 92,229</u>	<u>\$ 34,909</u>

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

ACE PREPARATORY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>			<u>2020</u>		
	<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	\$ 811,027	\$ 105,370	\$ 916,397	\$ 679,144	\$ 121,645	\$ 800,789
Occupancy	251,007	-	251,007	193,640	-	193,640
Employee benefits	60,899	62,469	123,368	52,511	18,208	70,719
Professional services	27,183	84,720	111,903	93,167	77,700	170,867
Depreciation	80,719	-	80,719	74,046	-	74,046
Food costs	30,512	-	30,512	100,751	-	100,751
Information technology	25,319	-	25,319	8,321	-	8,321
Classroom and office supplies	16,883	4,466	21,349	12,681	8,584	21,265
Interest	-	20,854	20,854	-	16,635	16,635
Repairs and maintenance	15,160	-	15,160	11,392	-	11,392
Insurance	-	14,923	14,923	-	28,743	28,743
Textbooks and equipment	12,181	-	12,181	16,922	-	16,922
Community relations	-	6,030	6,030	-	5,296	5,296
Authorizer fees	-	5,241	5,241	-	3,088	3,088
Field trips	-	-	-	1,828	-	1,828
Other	-	18,783	18,783	-	16,819	16,819
<i>Total functional expenses</i>	<u>\$ 1,330,890</u>	<u>\$ 322,856</u>	<u>\$ 1,653,746</u>	<u>\$ 1,244,403</u>	<u>\$ 296,718</u>	<u>\$ 1,541,121</u>

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

ACE PREPARATORY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 57,320	\$ 16,745
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness income	-	(77,800)
Depreciation	80,719	74,046
Change in certain assets and liabilities:		
Grants receivable	(79,674)	10,030
Prepaid expenses	1,516	(3,595)
Accounts payable and accrued expenses	(5,883)	11,744
Due to landlord	-	26,022
	<u>53,998</u>	<u>57,192</u>
<i>Net cash provided by operating activities</i>		
	<u>53,998</u>	<u>57,192</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(17,867)</u>	<u>(30,810)</u>
FINANCING ACTIVITIES		
Net payments on the line of credit	-	(188,001)
Paycheck Protection Program loan proceeds	-	77,800
Net proceeds from Charter School Capital, Inc. liability	<u>87,200</u>	<u>66,800</u>
	<u>87,200</u>	<u>(43,401)</u>
<i>Net cash provided by (used in) financing activities</i>		
	<u>87,200</u>	<u>(43,401)</u>
NET CHANGE IN CASH	123,331	(17,019)
CASH, BEGINNING OF YEAR	<u>14,778</u>	<u>31,797</u>
CASH, END OF YEAR	<u>\$ 138,109</u>	<u>\$ 14,778</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 20,854	\$ 16,635

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

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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. During the 2020-2021 school year, the School served approximately 165 students in kindergarten through fifth grade (160 students in kindergarten through fourth grade during the 2019-2020 school year).

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, 2021 and 2020, the School had only net assets without donor restrictions.

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.

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, 2021 and 2020.

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 over \$1,000 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 years
Furniture and equipment	3 to 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, 2021 and 2020, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 ended after June 30, 2017 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 17, 2021, 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 - REVENUE RECOGNITION

Revenue Recognition Standard – Effective July 1, 2020, the School adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 replaced previous revenue recognition guidance under U.S. GAAP and requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. The School has applied the provisions of this ASU to the June 30, 2021 and 2020 financial statements. There was no material impact on the financial statements.

Revenue Recognition Policy – 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 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. Incurring approved costs under the grant is considered satisfaction of the performance obligations.

Disaggregation of Revenue – Revenue is disaggregated on the statements of activities and change in net assets.

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 3 - DUE TO CHARTER SCHOOL CAPITAL, INC.

The School has a Receivables Purchase Agreement (“RPA”) with Charter School Capital, Inc. (“CSC”) to sell, transfer, and otherwise convey to CSC without recourse all of the School’s rights, title and interest in, to, and under certain basic grant and other receivables. Under the terms of the RPA, the School’s sale limit during the term of the RPA is a maximum of \$231,000 at any one time outstanding. During the year ended June 30, 2021, the School executed the sales of receivables totaling \$905,600, for a cost of approximately \$19,500, and collected receivables of \$818,400. During the year ended June 30, 2020, the School executed the sale of receivables totaling \$528,800, for a cost of approximately \$12,200. The cost is included in interest expense. Outstanding receivables owed to CSC as of June 30, 2021 and 2020 were \$154,000 and \$66,800, respectively.

NOTE 4 - CARES ACT FUNDING

On April 14, 2020, the School was granted a loan from The National Bank of Indianapolis in the amount of \$77,800, pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act. Under the terms of the Paycheck Protection Program, the loan funds are to be forgiven if they are used for qualifying expenses as described in the CARES Act. The School evaluated the expenses to which these funds were applied through June 30, 2020, and determined the loan requirements were met, and thus recognized the funds as contribution income during the year ended June 30, 2020, in accordance with FASB ASC 958-605. During the year ended June 30, 2021, the loan was officially forgiven in full.

The School received additional CARES Act Grants totaling \$31,010 and \$17,388 during the years ended June 30, 2021 and 2020, respectively.

NOTE 5 - LEASE

The School leases its facility from an unrelated party. During the year ended June 30, 2020, monthly lease payments were \$12,000. Effective July 1, 2020, monthly lease payments increased to \$20,000 through June 30, 2022. Any amount over \$15,000 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 beyond the amount the School has on deposit with the landlord. As of both June 30, 2021 and 2020, the School’s liability to the landlord totaled \$66,943, as the landlord has funded maintenance and improvements above the deposit account. 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 any amount owed in the due to landlord liability account or minus any funds held in the reserve account as noted above.

Minimum lease obligations for the facility total \$240,000 for the year ending June 30, 2022.

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 6 - RETIREMENT PLAN

During the year ended June 30, 2021, the School established a retirement plan that allows employees to make salary deferral contributions and provides that the School will make contributions at its discretion. For the year ended June 30, 2021, the School contributed a 3% match of defined compensation to each contributing employee's retirement account. Retirement plan expense was \$9,072 for the year ended June 30, 2021.

NOTE 7 - COMMITMENTS

The School operates under a charter granted by Indiana Charter School Board. As the sponsoring organization, Indiana Charter School Board exercises certain oversight responsibilities. The charter agreement remains in effect until June 30, 2026 and is renewable thereafter by mutual consent. Indiana Charter School Board assesses a fee in an amount equal to no more than 3% of the total amount received by the School. The fees were \$5,241 and \$3,088 for the years ended June 30, 2021 and 2020, respectively. In addition, the charter agreement requires the School to establish an escrow account of \$30,000 should a dissolution occur, which has been established and is included in cash on the statement of financial position.

NOTE 8 - 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 9 - LIQUIDITY

Financial assets held by the School include cash and grants receivable. Following is a schedule of financial assets and the ability thereof to meet cash needs for general expenditures as of June 30:

	<u>2021</u>	<u>2020</u>
Financial assets	\$ 248,263	\$ 45,258
Less: receivables factored as of June 30 (see Note 3)	<u>(154,000)</u>	<u>(66,800)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>94,263</u>	\$ <u>(21,542)</u>

ACE PREPARATORY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 9 - LIQUIDITY, Continued

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 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.

ACE PREPARATORY, INC.
OTHER REPORT
For the Year Ended June 30, 2021

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*.