21st CENTURY CHARTER SCHOOL @ GARY, INC.

FINANCIAL STATEMENTS
June 30, 2019 and 2018

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
21st Century Charter School @ Gary, Inc.
Gary, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of 21st Century Charter School @ Gary, Inc. (the School), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Charter School @ Gary, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its 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 1 to the financial statements, the School has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities* for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 13, 2020, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
March 13, 2020

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 492,793	$ 1,136,756
Restricted cash	1,528,320	1,483,747
Grants and accounts receivable	262,443	550,672
Prepaid expenses	67,712	68,132
Due from related parties (Note 4)	74,973	74,973
Property and equipment, net (Note 2)	10,395,258	10,700,328
Total assets	$ 12,821,499	$ 14,014,608
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 969,257	$ 860,405
Due to related parties (Note 4)	16,277	33,560
Bonds and notes payable, net (Note 3)	12,726,007	13,002,577
Total liabilities	13,711,541	13,896,542
NET ASSETS		
Without donor restrictions	(890,042)	118,066
Total liabilities and net assets	$ 12,821,499	$ 14,014,608

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2019 and 2018

	2019	2018
Public support and revenues		
Federal grants	$ 2,202,102	$ 2,118,829
State and local grants	7,897,546	8,230,988
Supporting services	38,195	54,171
Loss on disposal of equipment	(47,861)	-
Total revenue and support	10,089,982	10,403,988
Expenses		
Education services	10,299,148	9,428,429
Management and general	798,942	761,531
Total expenses	11,098,090	10,189,960
Change in net assets	(1,008,108)	214,028
Net assets at beginning of year	118,066	(95,962)
Net assets, end of year	$ (890,042)	$ 118,066

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ (1,008,108)	$ 214,028
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	531,583	534,601
Loss on disposal of property and equipment	47,861	-
Change in assets and liabilities:		
Grants and accounts receivable	288,229	(187,952)
Prepaid expenses	420	(229)
Due to/from related parties	(17,283)	(4,469)
Accounts payable and accrued other expenses	108,852	(516)
Net cash from operating activities	(5,016)	555,463
Cash flows from investing activities		
Purchases of property and equipment	(274,374)	(62,443)
Deposits to restricted cash	(44,573)	(35,998)
Net cash from investing activities	(318,947)	(98,441)
Cash flows from financing activities		
Principal payments on bonds and notes payable	(320,000)	(305,000)
Net cash used by financing activities	(320,000)	(305,000)
Net change in cash and cash equivalents	(643,963)	152,022
Cash and cash equivalents, beginning of year	1,136,756	984,734
Cash and cash equivalents, end of year	$ 492,793	$ 1,136,756
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	788,712	$ 802,638

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization: 21st Century Charter School @ Gary. Inc. (the School) is a nonprofit corporation established to operate a charter school. The School is dedicated to ensure that all students show growth in character, academics, life skills, the arts, and wellness using teaching skills tailored to meet the needs of each student.

The School was established under the laws of the State of Indiana, and operates under a Board of School Directors form of government. The financial statements of the School are consolidated into the Greater Education Opportunities Foundation (GEOF) financial statements due to economic control.

Method of Accounting: The School maintains its accounts on the accrual basis of accounting and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income Taxes: The School is exempt from income taxes on income from related activities under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the School is not considered to be a private foundation under Section 509(a) of the Internal Revenue Code.

The School has adopted applicable guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that 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 benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit will be recorded.

The School does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The School recognizes interest and/or penalties related to income tax matters in income tax expense. The School did not have any amounts accrued for interest and penalties at June 30, 2019 and 2018.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000. Bank balances may periodically exceed FDIC insured limits. For the purpose of the statement of cash flows, the School considers all highly liquid debt instruments, if any, purchased with a maturity of three months or less to be cash equivalent.

Restricted Cash: Restricted cash consists of funds held in trust accounts for capital expenditures and debt service reserves.

Grants Receivable: Grants receivable balances consist of amounts billed or billable for services provided or contracted. The School does not accrue interest on any of its grants receivables.

Allowances: No allowance for doubtful accounts is recorded as of June 30, 2019 and 2018. The allowances are based upon prior experience and management’s analysis of specific receivables and promises to give. Losses are charged off to the reserve when management deems further collection efforts will no longer produce additional recoveries. The School currently considers all receivables to be fully collectible.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Expenditures for property and equipment and items in excess of $500 which substantially increase the useful lives of existing assets are capitalized at cost or at fair value at date of gift. Repairs and maintenance costs are expensed as incurred. Depreciation has been computed on straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

Buildings and improvements	39 years
Property and equipment	3-7 years

Impairment of Long-Lived Assets: In accordance with GAAP, the School reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. As of June 30, 2019 and 2018, management believes that no impairment exists.

Fair Value of Financial Instruments: Cash and cash equivalents and accounts payable approximate fair value because of the short maturity of these instruments. Grants receivable are not readily marketable. The School has estimated their fair value to be the carrying value. The carrying value of all the School's financial instruments, approximate fair value, except for bonds and notes payable.

Basis of Presentation: The School follows GAAP and reports information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – The net asset without donor restrictions class includes general assets and liabilities of the School. The net assets without donor restrictions of the School may be used at the discretion of management to support the School's purposes and operations.

Net Assets With Donor Restrictions – The net asset with donor restrictions class includes assets of the School related to gifts and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates.

The net asset with donor restrictions class also includes assets of the School related to contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School had no net assets with donor restrictions as of June 30, 2019 and 2018.

Federal and State Grants: Support funded by grants is recognized as the School performs the contracted services under various grant agreements. Grant revenue is typically recognized as earned as the eligible expenses are incurred. Some of the School's grant agreements are not on a cost reimbursement basis, and support is recognized when earned. This includes the School's basic grant support from the State which is based on per-pupil funding. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional and Allocated Expenses: Expenses have been classified as program services and supporting services based on the actual direct expenditures and estimated cost allocations. Salaries and related expenses are charged based upon time estimates of personnel. Supporting services include management and general activities of the School. The School did not incur any fundraising expenses for the years ended June 30, 2019 and 2018.

Advertising: The School expenses advertising costs as incurred. During 2019 and 2018, expenses totaling $32,938 and $12,598 were incurred for advertising.

Recently Adopted Accounting Guidance: In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for profit financial reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the School to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories; net assets without donor-imposed restrictions and net assets with donor-imposed restrictions, among other requirements. The School adopted ASU 2016-14 for its fiscal year ending June 30, 2019 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The implementation of this ASU did not have a material effect on amounts previously presented.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers Topic (606)*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU has superseded the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The School applied the amendments in this ASU for the year ended June 30, 2019.

The School implemented ASU 2014-09 using a modified retrospective method of application to all contracts. The adoption of ASU 2014-09 resulted in changes to the disclosure of revenue primarily related to supporting services and rental revenues. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2014-09. As a result, no cumulative effect adjustment was recorded upon adoption

In June 2018, the FASB issued ASU 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The School applied the amendments in this ASU for the year ended June 30, 2019.

The School implemented ASU 2018-08 using a full retrospective method of application. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2018-08. As a result, no cumulative effect adjustment was recorded upon adoption.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2019, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2019. Management has performed their analysis through March 13, 2020, the date the financial statements were issued.

NOTE 2 - PROPERTY AND EQUIPMENT

At June 30, the carrying value of land, buildings and building improvements, and equipment, consists of the following:

	2019	2018
Land	$ 296,500	$ 296,500
Building and building improvements	11,523,369	11,489,669
Equipment	1,959,085	2,508,535
	13,778,954	14,294,704
Less: accumulated depreciation	(3,383,696)	(3,594,376)
	$ 10,395,258	$ 10,700,328

Depreciation expense for the years ended June 30, 2019 and 2018 was $488,153 and $487,454, respectively.

NOTE 3 – BONDS AND NOTES PAYABLE

Bonds and notes payable consisted of the following at June 30:

	2019	2018
Series 2013A bonds payable, maturing in March 2033, including interest computed at 6%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013. Principal payments began on February 28, 2018.	$ 5,130,000	$ 5,360,000
Series 2013A bonds payable, maturing in March 2043, including interest computed at 6.25%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013. Principal payments begin on February 28, 2034.	7,355,000	7,355,000
Note payable to State of Indiana Treasurer to support charter school operations, payable in semi-annual installments of $45,000, plus interest computed at 1.00%, through maturity in July 2026.	675,000	765,000
	13,160,000	13,480,000
Bond issuance cost, net of accumulated amortization	(433,993)	(477,423)
Total bonds and notes payable, net	$ 12,726,007	$ 13,002,577

(Continued)

NOTE 3 – BONDS AND NOTES PAYABLE (Continued)

The estimated future principal payments due on long term debt are:

2020	$ 335,000
2021	350,000
2022	365,000
2023	380,000
2024	395,000
Thereafter	11,335,000
	$ 13,160,000

Total interest expense during the years ended June 30, 2019 and 2018 were $783,625 and $798,171, respectively. The School has financial and nonfinancial covenants associated with the bond obligations. At June 30, 2019 and 2018, the School was not in compliance with certain covenants. Management is in the process of renegotiating the debt instrument and the bondholder has provided a forbearance agreement through March 15, 2021.

NOTE 4 - RELATED PARTY TRANSACTIONS

The School has a management agreement with the Greater Educational Opportunities Foundation (GEOF). Under the management agreement, GEOF charges administrative and per student fees in exchange for the management, operation, administration, IT support, payroll and accounting services provided. During the years ended June 30, 2019 and 2018, the School paid GEOF administrative fees of $634,947 and $600,000, respectively. As part of the management services provided, GEOF acts as the payor of certain operating expenses including a self-funded insurance plan for employee medical and prescription drug insurance managed by GEOF. GEOF is reimbursed by the School. During the years ended June 30, 2019 and 2018, the School paid GEOF reimbursements of $414,701 and $374,699, respectively, for self-insurance expense and other reimbursements. The School's board retains final authority and responsibility for financial and budgetary commitments. At June 30, 2019 and 2018, the School has a payable to GEOF for $16,277 and $33,560, respectively, for various transactions and a receivable from GEOF in the amount of $74,973, respectively, for overpayment of administrative fees.

NOTE 5 - CHARTER AGREEMENT

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay Ball State University an annual administrative fee equal to 3% of State tuition support, along with other licensing fees. Payments under this charter agreement were $143,380 and $148,699 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - PENSION PLANS

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the plan. There were no employer matching contributions to the plan for the years ended June 30, 2019 and 2018.

The School participates in the Indiana Public Retirement System (INPRS). INPRS includes both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). PERF is a defined benefit pension plan. PERF is a cost sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. TRF is a defined benefit pension plan. TRF is a cost-sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The School employees are required to contribute three percent of their annual covered salary. The School is required to contribute an actuarially determined rate determined annually for PERF and TRF. The School’s expense for the years ended June 30, 2019 and 2018 was $382,210 and $305,797, respectively.

NOTE 7 – FUNCTIONAL EXPENSES BY NATURE

The statements of activities report certain categories of expenses attributable to the program and supporting functions of the School. Functions include program expense for education services and management and general activities. The table below presents these functional expenses by their natural classification for the years ended June 30, 2019 and 2018, respectively.

	2019		
	Education Services	Management and General	Total
Salaries and benefits	$ 6,410,143	$ -	$ 6,410,143
Student support and supplies	1,213,655	-	1,213,655
Office and operation expense	308,139	-	308,139
Depreciation and amortization	531,583	-	531,583
Building and grounds	1,277,247	-	1,277,247
Service contracts	558,381	798,942	1,357,323
Total expenses	$10,299,148	$ 798,942	$11,098,090

	2018		
	Education Services	Management and General	Total
Salaries and benefits	$ 6,026,472	$ -	$ 6,026,472
Student support and supplies	902,287	-	902,287
Office and operation expense	263,522	-	263,522
Depreciation and amortization	534,601	-	534,601
Building and grounds	1,241,830	-	1,241,830
Service contracts	459,717	761,531	1,221,248
Total expenses	$ 9,428,429	$ 761,531	$10,189,960

NOTE 8 - LIQUIDITY AND AVAILABILITY

The School's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2019	2018
Cash and cash equivalents	$ 492,793	$ 1,136,756
Restricted cash	1,528,320	1,483,747
Grants and accounts receivable	262,443	550,672
Due from related parties	74,973	74,973
	2,358,529	3,246,148
Less amount not available to be used within one year:		
Restricted cash	1,528,320	1,483,747
Financial assets available to meet general expenditures Within one year	$ 830,209	$ 1,762,401

As noted in Note 1, the $1,528,320 of restricted cash consists of funds held in trust accounts for capital expenditures and debt service reserves. As a result, this restricted cash is not available for general expenditures and must be removed from the available assets within one year amount. As part of the School's liquidity management, the School invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass Through Number	Total Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Indiana Department of Education:			
Child Nutrition Cluster			
School Breakfast Program	10.553	9545	$ 113,324
National School Lunch Program	10.555	9545	466,810
Total Child Nutrition Cluster			580,134
U.S. Department or Education			
Passed through the Indiana Department of Education			
Title I, Part A			
Title I Grants to Local Educational Agencies	84.010	S010A160014	191,205
Title I Grants to Local Educational Agencies	84.010	S010A170014	1,135,089
Total for Title I Grants to Local Educational Agencies			1,326,294
Special Education Cluster			
Special Education Grants to States	84.027	17611-532-PN01	20,548
Special Education Grants to States	84.027	18611-532-PN01	146,557
Total Special Education cluster			167,105
Supporting Effective Instruction State Grants	84.367	S010A160014	81,008
Student Support and Academic Enrichment Program	84.424A	S424A180015	47,561
Total expenditures of federal awards			$ 2,202,102

See accompanying note to the Schedule of Expenditures of Federal Awards.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
21st Century Charter School @ Gary, Inc.
Gary, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 21st Century Charter School @ Gary, Inc. (the School), which comprise the statement of financial position as of June 30, 2019, and the related statement of activities, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
March 13, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
21st Century Charter School @ Gary, Inc.
Gary, Indiana

Report on Compliance for Each Major Federal Program

We have audited 21st Century Charter School @ Gary, Inc.'s (the School) compliance with the types of compliance requirements described in the *OMB Uniform Guidance* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2019. The School's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

(Continued)

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
March 13, 2020

Section 1 – Summary of Auditor's Results

Financial Statements

Type of report the audit issued on whether the Financial statements audited were prepared In accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_______ Yes	___X___ No
Significant deficiencies identified not considered to be material weaknesses?	_______ Yes	___X___ None reported
Noncompliance material to financial statements noted?	_______ Yes	___X___ No

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	_______ Yes	___X___ No
Significant deficiency(ies) identified?	_______ Yes	___X___ None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_______ Yes	___X___ No

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? ___X___ Yes _______ No

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

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

Indiana State Board of Accounts Compliance Report of 21st Century Charter School @ Gary. Inc.

The above 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 addressing is *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools.*

INDIANA STATE BOARD OF ACCOUNTS
COMPLIANCE REPORT OF
21st CENTURY CHARTER SCHOOL AT GARY, INC.

LAKE COUNTY, INDIANA
July 1, 2018 to June 30, 2019

21st CENTURY CHARTER SCHOOL AT GARY, INC.

LAKE COUNTY, INDIANA
July 1, 2018 to June 30, 2019

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Office	**Official**	**Term**
Lead Principal	Anthony Cherry	July 1, 2018 to June 30, 2019
Treasurer	Dana Johnson Teasley	July 1, 2018 to June 30, 2019
President of the Charter Board	Arlene Colvin	July 1, 2018 to June 30, 2019

Crowe LLP
Independent Member Crowe Global

TRANSMITTAL LETTER

Board of Directors and Management
21st Century Charter School at Gary, Inc.
Indianapolis, Indiana

We have audited the financial statements of 21st Century Charter School at Gary, Inc. (the "School") for the period from July 1, 2018 to June 30, 2019, and have issued our report thereon March 13, 2020. As part of our audit, we performed certain tests of the School's compliance with provisions of the Accounting and Uniform Compliance Guidelines Manual ("Manual") for the audits of Indiana Charter Schools issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audited Results and Comments are matters where we believe the School was not in compliance with those provisions. However, providing an opinion on compliance with the Manual was not an objective of our tests, and accordingly, we do not express such an opinion.

The School's responses to the findings identified in our report are described in the accompanying pages. The School's responses were not subjected to the procedures applied in the tests of the School's compliance with the Manual and, accordingly, we express no opinion on them.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
March 13, 2020

FINDING 2019-001: **REVIEW OF TICKET SALE PROCEDURES**

Criteria: Part 2 of the Indiana Charter School Manual states in part, *"The designated charter school employee shall be responsible for the proper accounting for all tickets and must keep a record of the number purchased, the number issued for sale, and the number returned. The designee must see that proper accounting is made for the cash received from those sold. All tickets shall be prenumbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the charter school, the charter school's receipt issued therefore must show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form."*

Condition: During our testing of ticket sale procedures, we noted the SA-4 Ticket Sales Form is being utilized by the School. We selected five SA-4 Ticket Sales Forms to test and noted in four instances the form was not properly signed off by the official or sponsor.

Recommendation: We recommend management review the procedures surrounding the preparation and review of the SA-4 Ticket Sales Form and ensure the forms are properly reviewed and signed off by the official or sponsor.

Management Response: Management agrees with the finding. Management communicated the requirements to the form approvers and will continue to work with form approvers to ensure the SA-4 forms are properly filled out and signed by the appropriate parties.

FINDING 2019-002: **CONFLICT OF INTEREST STATEMENTS**

Criteria: Part 13 of the Indiana Charter School Manual notes that conflict of interest statement should be filed and provide to state board of accounts.

Condition: During our review of conflict of interest statements, we noted two board members did not complete the conflict of interest form for the year under review.

Recommendation: We recommend all board members complete their conflict of interest statements in a timely manner.

Management Response: Management agrees with finding. Management communicates the requirement to board members frequently and will continue to work with all board members to ensure conflict of interest forms are completed in a timely manner.

The contents of this report were discussed on December 13, 2019 with Dana Johnson Teasley, Treasurer. The Official Response has been made a part of this report and may be found immediately following the findings on the previous page.

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Central Indiana Military Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy, which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy as of June 30, 2019 and 2018, 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

Donovan

November 6, 2019
Indianapolis, Indiana

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 567,608	$ 760,359
Grants receivable	13,755	53,721
Prepaid expenses	24,701	29,128
Total current assets	606,064	843,208
PROPERTY AND EQUIPMENT		
Land	320,000	320,000
Buildings and improvements	3,196,528	3,137,677
Furniture and equipment	2,351,741	2,280,886
Textbooks	143,963	143,963
Vehicles	57,279	57,279
Less: accumulated depreciation	(3,040,044)	(2,568,118)
Property and equipment, net	3,029,467	3,371,687
TOTAL ASSETS	$ 3,635,531	$ 4,214,895
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 241,441	$ 231,399
Current portion of capital lease obligations	22,345	46,149
Accounts payable and accrued expenses	394,717	464,539
Refundable advances	-	840
Total current liabilities	658,503	742,927
LONG-TERM LIABILITIES		
Notes payable, net of current portion	1,363,624	1,577,095
Capital lease obligations, net of current portion	3,913	26,411
Total long-term liabilities	1,367,537	1,603,506
Total liabilities	2,026,040	2,346,433
NET ASSETS, WITHOUT DONOR RESTRICTIONS		
Undesignated	1,529,071	1,792,063
Board designated	80,420	76,399
Total net assets	1,609,491	1,868,462
TOTAL LIABILITIES AND NET ASSETS	$ 3,635,531	$ 4,214,895

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

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 5,440,272	$ 5,168,152
Grant revenue	1,153,922	1,173,937
Student fees	222,092	167,626
Contributions	40,662	26,284
Fundraising and other income	261,836	211,317
Total revenue and support	7,118,784	6,747,316
EXPENSES		
Program services	6,005,029	5,662,020
Management and general	1,372,726	1,324,945
Total expenses	7,377,755	6,986,965
CHANGE IN NET ASSETS	(258,971)	(239,649)
NET ASSETS, BEGINNING OF YEAR	1,868,462	2,108,110
NET ASSETS, END OF YEAR	$ 1,609,491	$ 1,868,462

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

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 3,202,116	$ 665,159	$ 3,867,275	$ 3,153,084	$ 647,297	$ 3,800,381
Employee benefits	664,483	140,204	804,687	638,506	152,017	790,523
Classroom, kitchen, and office supplies	600,099	33,862	633,961	322,115	29,998	352,113
Professional services	367,699	214,918	582,617	302,946	208,766	511,712
Depreciation	480,455	-	480,455	512,834	-	512,834
Occupancy	276,809	-	276,809	343,947	-	343,947
Property rental and maintenance	242,394	-	242,394	201,566	-	201,566
Insurance	-	135,169	135,169	-	116,982	116,982
Authorizer oversight fees	-	120,902	120,902	-	117,693	117,693
Interest	86,178	-	86,178	92,393	-	92,393
Staff development	27,071	5,009	32,080	25,465	5,088	30,553
Transportation	21,662	-	21,662	16,026	-	16,026
Loss on disposal of property and equipment	-	-	-	21,118	-	21,118
Other	36,063	57,503	93,566	32,020	47,104	79,124
Total functional expenses	$ 6,005,029	$ 1,372,726	$ 7,377,755	$ 5,662,020	$ 1,324,945	$ 6,986,965

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

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (258,971)	$ (239,649)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	480,455	512,834
Loss on disposal of property and equipment	-	21,118
Changes in certain assets and liabilities:		
Grants receivable	39,966	(6,395)
Prepaid expenses	4,427	18,298
Accounts payable and accrued expenses	(69,822)	130,492
Refundable advances	(840)	(2,206)
Net cash provided by operating activities	195,215	434,492
INVESTING ACTIVITIES		
Purchases of property and equipment	(138,235)	(253,911)
FINANCING ACTIVITIES		
Proceeds from notes payable	-	300,454
Principal repayment of notes payable	(203,429)	(183,721)
Principal reduction of capital lease obligations	(46,302)	(236,164)
Net cash used in financing activities	(249,731)	(119,431)
NET CHANGE IN CASH	(192,751)	61,150
CASH, BEGINNING OF YEAR	760,359	699,209
CASH, END OF YEAR	$ 567,608	$ 760,359

	2019	2018
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 86,178	$ 92,393

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy (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 serving approximately 750 students in grades kindergarten through twelve and is sponsored by Ball State University.

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 and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14. The School only has net assets without donor restrictions as of June 30, 2019 and 2018.

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.

Board Designated Net Assets – The Board designated net assets at both June 30, 2019 and 2018 for purposes related to various School academic and sports programs. Board designated net assets totaled $80,420 and $76,399, as of June 30, 2019 and 2018, respectively.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributions and Fees – The School receives income from contributions, student fees, and fundraising events that support certain school activities. These receipts are reported as restricted support in that they are received with stipulations that limit their use. When a donor restriction expires, that is, when the purpose or time restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions.

Taxes on Income – Central Indiana Military Academy, Inc. has received a determination from the U.S. Internal Revenue Service 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. Tax years ending after 2015 are open to audit for both federal and state purposes.

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, minor replacement costs, and equipment purchases with a unit cost of less than $500 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:

Building and improvements	5 to 40 years
Furniture and equipment	3 years
Textbooks	4 years
Vehicles	5 years

Subsequent Events – The School evaluated subsequent events through November 6, 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 were comprised of the following at June 30:

	2019	2018
Mortgage loan payable to First Financial Bank, payable in monthly installments of $4,460 including interest at 4.55% per annum through July 2021, secured by a mortgage on School facilities and all business assets	$ 106,118	$ 153,551
Mortgage loan payable to First Financial Bank, payable in monthly installments of $3,183 including interest at 4.20% per annum through June 2022, secured by a mortgage on School facilities and all business assets	99,278	105,654
Mortgage loan payable to First Financial Bank, payable in monthly installments of $3,761 including interest at 4.85% per annum (adjustable annually beginning August 2019) through July 2026, secured by a mortgage on School facilities and all business assets	297,302	320,737
Mortgage loan payable to First Financial Bank, payable in monthly installments of $4,214 including interest at 4.85% per annum (adjustable annually beginning September 2019) through July 2026, secured by a mortgage on School facilities and all business assets	302,478	337,232
Mortgage loan payable to First Financial Bank, payable in monthly installments of $7,341 including interest at 4.85% per annum (adjustable annually beginning August 2019) through August 2026, secured by a mortgage on School facilities and all business assets	531,280	591,622
Mortgage loan payable to First Financial Bank, payable in monthly installments of $3,224 including interest at 4.85% per annum (adjustable annually beginning September 2019) through March 2029, secured by a mortgage on School facilities and all business assets	268,609	299,698
	1,605,065	1,808,494
Less: current portion	(241,441)	(231,399)
Long-term portion	$ 1,363,624	$ 1,577,095

NOTE 2 - NOTES PAYABLE, Continued

The First Financial Bank notes payable require the School to maintain a minimum debt service coverage ratio greater than 1.50 to 1.00. The bank was in violation of this covenant for the year ended June 30, 2019, but received a waiver from the bank.

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

2020	$	241,441
2021		257,611
2022		201,723
2023		182,070
2024		191,147
Thereafter		531,073
	$	1,605,065

NOTE 3 - REVOLVING LINE OF CREDIT

The School has a $100,000 revolving line of credit with First Financial Bank to provide short-term financing, which is secured by all business assets. Bank advances on the credit line carry an interest rate of prime plus .75% (at total of 6.25% at June 30, 2019). There were no advances outstanding on the line of credit as of June 30, 2019 and 2018.

NOTE 4 - LEASES

The School leases various items of equipment under capital leases. At June 30, 2019, the cost and accumulated depreciation relating to these assets were $306,200 and $240,150, respectively ($306,200 and $149,433, respectively, at June 30, 2018).

Minimum future lease payments as of June 30, 2019 under capital leases and the present value of the net minimum lease payments are as follows for the years ending June 30:

2020	$	23,533
2021		3,913
Less: amount representing interest		(1,188)
	$	26,258

The School also leases various items of equipment under operating leases. Total expense under these operating leases was $32,900 and $30,796 for the years ended June 30, 2019 and 2018, respectively. None of the operating leases have terms extending beyond the following fiscal year.

NOTE 5 - RETIREMENT PLANS

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. For the years ended June 30, 2019 and 2018, the School contributed 7.5% of compensation for eligible teaching personnel 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.

All other employees are eligible to participate in a School-sponsored section 403(b) plan. Under this plan, the School contributes 6% of compensation, as defined in the plan document. Additional contributions may be made at the discretion of the Board of Directors. No discretionary contributions were made in 2019 or 2018. Retirement plan expense under both plans was $231,063and $231,637 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were $120,902 and $117,693 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

The School has contracted with a third party to provide network and technology services to the School. Under this contract, the School has committed to make annual payments of approximately $75,000 through August 2020 with the option to purchase additional services for which the School is billed as services are provided. The School has the option to terminate the agreement with 30 days notice. Payments under this agreement were $73,174 and $79,868 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Madison 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. Any changes in state or federal legislation could significantly impact 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 7 - RISKS AND UNCERTAINTIES, Continued

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at First Financial Bank, and are insured up to the FDIC insurance limit.

NOTE 8 - 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. Financial assets for the School include cash and grants receivable.

Financial assets, June 30, 2019	$	581,363
Less those unavailable for general expenditures within one year, due to:		
Board-designated for specific purpose		(80,420)
Financial assets available to meet cash needs for general expenditures within one year	$	500,943

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 Board of Directors has the option to un-designate the $80,420 of Board designated net assets to meet general obligations. In addition, the School has a $100,000 line of credit available as of June 30, 2019.

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. 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 is required.

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
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 Central Indiana Military Academy, Inc.
d/b/a Anderson Preparatory Academy

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*.

SUPPLEMENTAL AUDIT REPORT

OF

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY

MADISON COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
MADISON COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Chairman of Board of Directors	Sam Pellegrino	07/01/18 – 06/30/19
Business Manager	Natalie Hall	07/01/18 – 06/30/19
Treasurer of Board of Directors	David Ashby	07/01/18 – 06/30/19

Donovan CPAs

The Board of Directors
Central Indiana Military Academy, Inc.

We have audited the financial statements of Central Indiana Military Academy, Inc. d/b/a Anderson Preparatory Academy (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated November 6, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
November 6, 2019

RECEIPTS AND DEPOSITS

We tested twenty-five cash receipts from the School's receipt books. Three of the receipts tested were not completed in full as the form of payment was not identified.

The form is to be prenumbered by the printing supplier in duplicate, five receipts to the page. A receipt must be written on the form each time any money is received by the charter school regardless of whether it is in the form of cash, check, money order, bank card/credit card, EFT (all on which must be indicated as payment type and amount) or other negotiable instrument. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 2)

CENTRAL INDIANA MILITARY ACADEMY, INC.
d/b/a ANDERSON PREPARATORY ACADEMY
MADISON COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed with management and was presented to the Board of Directors on September 24, 2019. The Official Response has been made a part of this report and may be found on page 5.

2200 W. 22nd Street
Anderson, IN 46016
Kindergarten - Delta
765.649.8472 - office
765.640.5445 - fax
www.goapa.org

ANDERSON PREPARATORY
APA
ACADEMY

101 W. 29th Street
Anderson, IN 46016
Echo - 12th Grade
765.649.8472 - office
765.640.2550 - fax
www.goapa.org

September 24, 2019

Anderson Preparatory Academy acknowledges the SBOA finding on the audit for 7/1/18 – 6/30/19. There are procedures in place at Anderson Preparatory Academy regarding the correct way to write a receipt.

The procedures will be reviewed again with all employees so that we can prevent this finding in the future.

APA Administration

"Where Excellence is Expected"

ASPIRE CHARTER ACADEMY, INC.

Financial Statements, Additional Information, and Federal Awards Supplemental Information as of and for the Years Ended June 30, 2019 and 2018, and Independent Auditor's Reports

National Heritage Academies®

ASPIRE CHARTER ACADEMY, INC.

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Independent Auditors' Report

The Board of Directors
Aspire Charter Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Aspire Charter Academy, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aspire Charter Academy, Inc. as of June 30, 2019 and 2018 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019 on our consideration of Aspire Charter Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aspire Charter Academy, Inc.'s internal control over financial reporting and compliance.

DONOVAN

Donovan

Indianapolis, Indiana
December 13, 2019

ASPIRE CHARTER ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,306,833	$ 783,152
Due from governmental revenue sources	2,746,211	2,783,189
Less allowance for doubtful accounts	(2,544,248)	(2,544,248)
Total due from governmental revenue sources, net of allowance for doubtful accounts	201,963	238,941
Total current assets	1,508,796	1,022,093
NON-CURRENT ASSETS:		
Capital assets	191,883	191,883
Less accumulated depreciation	(154,235)	(135,784)
Total capital assets, net of accumulated depreciation	37,648	56,099
TOTAL	$ 1,546,444	$ 1,078,192
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 4,686	$ -
Deferred revenue	6,316	2,873
Contracted service fee payable	1,480,647	996,048
Total liabilities	1,491,649	998,921
NET ASSETS:		
Net assets without donor restrictions	54,795	79,271
TOTAL	$ 1,546,444	$ 1,078,192

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

ASPIRE CHARTER ACADEMY, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
REVENUES AND SUPPORT:		
State aid	$ 5,238,321	$ 5,101,831
Other state sources	650,159	649,672
Federal sources	1,819,797	1,809,658
Private sources	52,565	46,988
In-kind contribution from NHA	160,496	-
Total revenues and support	7,921,338	7,608,149
EXPENSES:		
Contracted service fee	7,886,959	7,572,529
Depreciation	18,451	18,950
Board expenses	40,404	34,880
Total expenses	7,945,814	7,626,359
CHANGE IN NET ASSETS	(24,476)	(18,210)
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Beginning of year	79,271	97,481
End of year	$ 54,795	$ 79,271

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

ASPIRE CHARTER ACADEMY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

	2019			2018
	Program Services	Management and General	Total	Total
Contracted service fee:				
Salaries and wages	$ 3,150,811	$ -	$ 3,150,811	$ 2,873,015
Retirement contributions	46,166	-	46,166	39,268
Other employee benefits	598,400	-	598,400	569,651
Payroll taxes	247,959	-	247,959	226,283
Accounting fees	4,152	64,157	68,309	80,779
Curriculum, textbooks, and supplies	269,936	-	269,936	200,794
Postage and shipping	4,889	-	4,889	4,214
Occupancy	1,563,928	11,420	1,575,348	1,559,725
Food service	410,247	-	410,247	414,502
Equipment rental and maintenance	15,658	-	15,658	124,748
Printing and publications	19,784	-	19,784	88,782
Travel	15,037	-	15,037	39,130
Conferences and meetings	100,765	-	100,765	122,318
Professional fees	557,388	-	557,388	429,672
Instructional support	-	127,548	127,548	125,658
Academic and general support	-	203,433	203,433	193,298
Enrollment and parent relations	-	32,964	32,964	35,150
Board support	-	62,594	62,594	61,540
Human resources	-	115,842	115,842	123,672
Support services	-	25,310	25,310	26,449
Technology	12,440	87,907	100,347	105,752
Marketing and business development	50,799	27,578	78,377	59,425
Insurance	23,754	-	23,754	21,308
Miscellaneous	36,093	-	36,093	47,396
Total contracted service fee	7,128,206	758,753	7,886,959	7,572,529
Depreciation	18,451	-	18,451	18,950
Expenses of Board of Directors	40,404	-	40,404	34,880
Total expenses	$ 7,187,061	$ 758,753	$ 7,945,814	$ 7,626,359

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

ASPIRE CHARTER ACADEMY, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
State aid	$ 5,199,392	$ 5,101,831
Other state sources	650,159	649,672
Federal sources	1,895,704	1,877,658
Private sources	56,009	48,107
Payments for services rendered	(7,277,583)	(7,434,395)
Net cash provided by operating activities	523,681	242,873
CASH — Beginning of year	783,152	540,279
CASH — End of year	$ 1,306,833	$ 783,152
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	$ (24,476)	$ (18,210)
Depreciation	18,451	18,950
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in due from governmental revenue sources	36,978	67,999
Change in accounts payable	4,686	-
Change in contracted service fee payable	484,599	173,015
Change in deferred revenue	3,443	1,119
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 523,681	$ 242,873
NON-CASH ACTIVITY:		
In-kind contribution from NHA	$ 160,496	

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

1. NATURE OF OPERATIONS AND REPORTING ENTITY

Aspire Charter Academy, Inc. (the “Academy”) is a public benefit not-for-profit organization established under the laws of the State of Indiana that provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The Academy served approximately 690 students during the 2018-2019 school year.

The Board of Directors of the Academy entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will continue until the termination or expiration of the charter contract, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives all Academy revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the Academy as compensation for management services rendered.

The Academy operates a public charter school established under Indiana Code 20-24-3-1 and is sponsored by Ball State University, which is responsible for oversight of the Academy’s operations. Under this Charter, the Academy has agreed to pay to Ball State University an annual fee equal to 3% of the state tuition support, which is included in the expenses assumed by NHA as described above. This amounted to $113,516 and $110,100 for the fiscal years 2019 and 2018, respectively. The charter expires on June 30, 2020, and is subject to renewal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, and expenditures during the reporting period. Actual results could differ from those estimates.

Cash — Cash as of June 30, 2019 represents bank deposits with a carrying amount of $1,306,833 and a bank balance of $1,312,135 of which $1,062,135 was uninsured and uncollateralized by federal depository insurance. The Academy does not have a deposit policy for custodial credit risk, as it typically does not anticipate holding uninsured deposits based on the nature of its management agreement with NHA. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Contracted Service Fee Payable — Contracted service fee payable as of June 30, 2019 and 2018 represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the services agreement.

Capital Assets — Capital assets, which include other equipment, are reported in the financial statements at historical cost. Capital assets are defined by the Academy as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

Other equipment is depreciated using the straight-line method over useful lives of 3–10 years.

The Financial Statements — Effective with the June 30, 2019 year end, the Academy 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 assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

Revenues, gains and other support are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed or governmental restrictions. Expenses are reported as decreases in net assets without donor restriction. Other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or governmental restriction. Expiration of donor restrictions on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time has elapsed) are reported as reclassifications between the applicable classes of net assets.

Revenue is recorded when earned, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Income Taxes — The Academy operates as a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Academy has received notification from the Internal Revenue Service (IRS) that they are considered exempt from Federal income tax under Section 501(c)(3) of the internal revenue code.

Accordingly, no provision for federal income taxes has been made.

Professional accounting standards require the Academy 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 Academy has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2015 are open to audit for both federal and state purposes.

Subsequent Events — The Academy 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.

Recent Accounting Pronouncements — In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Academy's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Academy has not yet determined which application method it will use. The Academy is in the process of evaluating potential effects of the new standard on the financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases,* which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the Statements of Activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the Statements of Financial Position. The reporting of lease-related expenses in the Statements of Activities and Cash Flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Academy's year ending June 30, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined, but is expected to have minimal impact when adopted.

3. DUE FROM GOVERNMENTAL REVENUE SOURCES

The Academy's accounts receivable balance consists of amounts due from the State of Indiana for tuition support relating to a) the first six months of the Academy's initial school year, b) enrollment growth occurring in subsequent school years, and c) grants and other receivables due from state and federal programs.

Pursuant to IC § 20-49-7, the State Board of Education was authorized to advance funds to charter schools via the State's Common School Fund thereby allowing charter schools to finance operations for periods when adequate tuition support was not received. These cash advances were made to charter schools through executed loan agreements with repayment terms that are defined in the statute.

In April 2013, the Indiana General Assembly repealed IC § 20-49-7 with the passing of House Bill 1001 and established an appropriation to forgive charter schools for cash advances previously made through the Common School Fund. The amounts forgiven under House Bill 1001 were to be applied against the related accounts receivable balance previously recorded by the Academy. The Academy did not receive funds from the Common School Fund and as such, no amount was forgiven by the State.

Members of the Indiana General Assembly have been informed that a number of charter schools remain with an accounts receivable balance and those charter schools believe that the State remains obligated for amounts not reimbursed through the provisions of House Bill 1001. Legal efforts are being made to resolve any outstanding obligations of the State. As a result, the Academy continues to carry a receivable balance of $2,544,248 that was not reimbursed through the provisions of House Bill 1001, however the Academy has reserved for its potential uncollectibility. The remaining balance of $201,963 and $238,941 as of June 30, 2019 and 2018, respectively, relates to routine amounts due from other state programs and federal programs.

4. LIQUIDITY

The Academy has $1,508,796 of financial assets available within one year of the date of the statement of financial position to meet cash needs for general expenditures consisting of cash of $1,306,833 and amounts due from governmental revenue sources of $201,963 at June 30, 2019. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the date of the statement of financial position.

The Academy has a goal to maintain financial assets, which consist of cash and short-term receivables on hand to meet 60 days of normal operating expenses, which are, on average, approximately $1,271,060 at June 30, 2019.

While the Academy will not always carry financial assets in excess of 60 days of normal operating expenses, due to their management agreement with NHA, NHA is required to make contributions to the Academy if the Academy's expenditures exceed the school's revenue during the year.

5. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2019, and claims did not exceed coverage less retained risk deductible amounts in the past three fiscal years.

6. CAPITAL ASSETS

Capital asset activity of the Academy as of and for the year ended June 30, 2019, was as follows:

2019	Beginning Balance	Additions	Disposals	Ending Balance
Other equipment	$191,883	$ -	$ -	$191,883
Total capital assets at historical cost	191,883	-	-	191,883
Less accumulated depreciation — equipment	(135,784)	(18,451)	-	(154,235)
Total accumulated depreciation	(135,784)	(18,451)	-	(154,235)
Total capital asset activity, net	$ 56,099	$ (18,451)	$ -	$ 37,648

Capital asset activity of the Academy as of and for the year ended June 30, 2018, was as follows:

2018	Beginning Balance	Additions	Disposals	Ending Balance
Other equipment	$191,883	$ -	$ -	$191,883
Total capital assets at historical cost	191,883	-	-	191,883
Less accumulated depreciation — equipment	(116,834)	(18,950)	-	(135,784)
Total accumulated depreciation	(116,834)	(18,950)	-	(135,784)
Total capital asset activity, net	$ 75,049	$ (18,950)	$ -	$ 56,099

7. CONTINGENCIES

The Academy has received proceeds from several federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

8. OPERATING LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2018 through June 30, 2019. Annual rental payments required by the lease are $912,800 payable in twelve monthly payments of $76,067.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2019 through June 30, 2020 at the same rental rate.

9. FUNCTIONAL EXPENSES

The Academy provides educational services to its students. The costs of providing the program and support services are allocated on an actual basis, when possible. Certain expenses attributable to more than one function and require an allocation on a reasonable basis that is consistently applied.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Aspire Charter Academy, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Aspire Charter Academy, 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, and have issued our report thereon dated December 13, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aspire Charter Academy, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aspire Charter Academy, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Aspire Charter Academy, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aspire Charter Academy, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Aspire Charter Academy, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aspire Charter Academy, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

Donovan

Indianapolis, Indiana
December 13, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *THE UNIFORM GUIDANCE*

The Board of Directors
Aspire Charter Academy, Inc.

Report on Compliance for Each Major Federal Program

We have audited Aspire Charter Academy, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2019. The Academy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Aspire Charter Academy, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Aspire Charter Academy, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Aspire Charter Academy, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, Aspire Charter Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Aspire Charter Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aspire Charter Academy, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aspire Charter Academy, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN

Donovan

Indianapolis, Indiana
December 13, 2019

ASPIRE CHARTER ACADEMY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor Agency/Pass-Through Entity/Cluster Title/ Program Title/ Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Total Federal Awards Expended
U.S. DEPARTMENT OF AGRICULTURE				
Pass-through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	N/A	$	80,072
National School Lunch Program	10.555	N/A		316,981
Total U.S. Department of Agriculture				397,053
U.S. DEPARTMENT OF EDUCATION				
Pass-through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	18-9685		167,565
	84.010	19-9685		1,044,693
	84.010A	S010A170014		33,882
Supporting Effective Instruction State Grants	84.367	S367A160013		101,155
	84.367	S367A170013		12,985
	84.367	S367A180013		23,537
Student Support and Academic Enrichment Program	84.424	2018-424-332		38,927
Total U.S. Department of Education				1,422,744
Total federal awards expended			$	1,819,797

ASPIRE CHARTER ACADEMY, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Aspire Charter Academy, Inc. under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Aspire Charter Academy, Inc., it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of Aspire Charter Academy, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

Aspire Charter Academy, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

ASPIRE CHARTER ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster

Dollar threshold use to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

No matters are reportable.

III. Federal Award Findings and Questioned Costs

No matters are reportable.

ASPIRE CHARTER ACADEMY, INC.

OTHER REPORT
FOR THE YEAR ENDED JUNE 30, 2019

The reports presented herein were prepared in addition to another official report prepared for Aspire Charter Academy, Inc. as listed below:

Supplemental Audit Report of Aspire Charter Academy, 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*.

SUPPLEMENTAL AUDIT REPORT
OF
ASPIRE CHARTER ACADEMY, INC.

LAKE COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan
CPAs

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ASPIRE CHARTER ACADEMY, INC.
LAKE COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Board President	Denise Dillard	07/01/18 – 06/30/19
Board Treasurer	LaCrecia Lott	07/01/18 – 06/30/19
School Leader	ReNae Robinson	07/01/18 – 06/30/19

The Board of Directors
Aspire Charter Academy, Inc.

We have audited the financial statements of Aspire Charter Academy, Inc. (the "Academy") as of and for the year ended June 30, 2019 and have issued our report thereon dated December 13, 2019. As part of our audit, we tested the Academy's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 13, 2019

RECEIPTS AND DEPOSITS

We selected a sample of 25 receipts for testing from the Academy's receipt book. Of those tested, four were not deposited in a timely manner. The length of time between receipt and deposit for these items ranged from 12 to 86 days.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

REQUIRED REPORTS

The total cash balance shown on the Academy's Form 9 at June 30, 2019 did not reflect the balance of cash reported on the Academy's trial balance. The Form 9 reports a $1 ending cash balance at June 30, 2019, while the actual cash balance per the trial balance was $1,306,833. Per the Academy's agreement with National Heritage Academies, Inc. ("NHA"), any excess cash at the end of the year reverts to NHA to assist in its management oversight responsibilities. This transfer was reflected in the Form 9 records, but not in the trial balance as of June 30, 2019.

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

TEXTBOOK REIMBURSEMENT

We selected a sample of five students to test for textbook eligibility compliance testing. Of the five students sampled, four were not directly certified. For each of the four non-directly certified students, the applications we reviewed were not signed by the designated determining official.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

ASPIRE CHARTER ACADEMY, INC.

LAKE COUNTY, INDIANA

Exit Conference

July 1, 2018 to June 30, 2019

The contents of this report were discussed on December 13, 2019 with Janet Thatcher and Christine Paulen from National Heritage Academies. The official response has been made a part of this report and may be found on page 5.

CORRECTIVE ACTION PLAN – STATE COMPLIANCE AUDIT FINDINGS

Finding: *The Academy did not deposit funds received in a timely manner.*

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter schools administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Response: The Academy does use electronic forms for the majority of its receipting process in place of the above listed prescribed manual forms. The Academy is in the process of providing the manual forms to the individuals at the school for the minimal amount of money that is not collected through their electronic system.

Finding: *The Academy's cash balance at fiscal year end should reflect the same balance on Form 9.*

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Response: The Academy's accrual basis accounting needs to be converted to cash basis for the required Form 9. The Academy will ensure that the cash balance at its fiscal year end will match the cash balance as reported on its trial balance for future Form 9's completed.

Finding: *The Academy must have completed forms for textbook reimbursement.*

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Guidelines Manual for Indiana Charter Schools, Part 10).

Response: The Academy will ensure that all forms are completed properly for those receiving textbook reimbursement.

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THE BLOOMINGTON PROJECT 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
The Bloomington Project School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Bloomington Project 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 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 of 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 The Bloomington Project School, Inc. as of June 30, 2019 and 2018, 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.

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Donovan

Indianapolis, Indiana
November 5, 2019

THE BLOOMINGTON PROJECT SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 279,223	$ 355,908
Grants receivable	42,893	19,405
Prepaid expenses	3,577	-
Total current assets	325,693	375,313
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,222,431	2,222,431
Furniture and equipment	480,380	480,380
Textbooks	77,316	77,316
Less: accumulated depreciation	(1,269,812)	(1,195,373)
Property and equipment, net	1,510,315	1,584,754
OTHER ASSETS		
Security deposit	10,000	10,000
TOTAL ASSETS	$ 1,846,008	$ 1,970,067
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 107,100	$ 101,826
Accounts payable	18,551	33,427
Accrued expenses	169,754	145,197
Refundable advances	60,760	83,577
Total current liabilities	356,165	364,027
LONG-TERM LIABILITIES		
Deferred rent payable	-	10,125
Notes payable, net of current portion	1,417,517	1,498,246
Total long-term liabilities	1,417,517	1,508,371
Total liabilities	1,773,682	1,872,398
NET ASSETS, WITHOUT DONOR RESTRICTIONS	72,326	97,669
TOTAL LIABILITIES AND NET ASSETS	$ 1,846,008	$ 1,970,067

THE BLOOMINGTON PROJECT SCHOOL, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 1,861,292	$ 1,838,387
Grant revenue	358,233	359,087
Student fees	83,521	77,915
Contributions	115,158	126,534
Other income	27,502	50,545
Total revenue and support	2,445,706	2,452,468
EXPENSES		
Program services	1,860,675	1,789,670
Management and general	610,374	625,065
Total expenses	2,471,049	2,414,735
CHANGE IN NET ASSETS	(25,343)	37,733
NET ASSETS , BEGINNING OF YEAR	97,669	59,936
NET ASSETS, END OF YEAR	$ 72,326	$ 97,669

THE BLOOMINGTON PROJECT SCHOOL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 1,107,404	$ 290,447	$ 1,397,851	$ 1,063,798	$ 266,178	$ 1,329,976
Employee benefits	287,520	71,537	359,057	285,618	76,663	362,281
Staff development	7,516	85	7,601	1,887	352	2,239
Professional services	51,128	53,334	104,462	34,618	55,610	90,228
Repairs and maintenance	49,439	-	49,439	47,643	-	47,643
Authorizer oversight fees	-	44,741	44,741	-	43,993	43,993
Food costs	49,492	-	49,492	42,905	-	42,905
Transportation	3,684	-	3,684	8,499	-	8,499
Equipment	21,889	-	21,889	5,253	-	5,253
Classroom, kitchen, and office supplies	44,789	5,496	50,285	29,218	3,058	32,276
Occupancy	123,261	-	123,261	147,477	-	147,477
Depreciation	74,439	-	74,439	75,772	-	75,772
Interest	-	94,303	94,303	-	101,277	101,277
Insurance	-	18,566	18,566	-	20,354	20,354
Other	40,114	31,865	71,979	46,982	57,580	104,562
Total functional expenses	$ 1,860,675	$ 610,374	$ 2,471,049	$ 1,789,670	$ 625,065	$ 2,414,735

THE BLOOMINGTON PROJECT SCHOOL, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (25,343)	$ 37,733
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	74,439	75,772
Changes in certain assets and liabilities:		
Grants receivable	(23,488)	6,041
Prepaid expenses	(3,577)	808
Accounts payable	(14,876)	10,287
Accrued expenses	24,557	36,451
Refundable advances	(22,817)	60,879
Deferred rent payable	(10,125)	(10,125)
Net cash provided by (used in) operating activities	(1,230)	217,846
FINANCING ACTIVITIES		
Principal repayments of notes payable	(75,455)	(98,063)
NET CHANGE IN CASH	(76,685)	119,783
CASH, BEGINNING OF YEAR	355,908	236,125
CASH, END OF YEAR	$ 279,223	$ 355,908
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 94,303	$ 101,277

THE BLOOMINGTON PROJECT SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The Bloomington Project School, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates as a public charter school established under Indiana Code 20-24 serving approximately 280 students in grades kindergarten through eighth and is sponsored by Ball State University.

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. Net assets as of June 30, 2019 and 2018 were entirely without donor restrictions.

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 generally 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 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.

Contributions – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restriction. There were no donor restrictions in 2019 or 2018.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The School believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

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 are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 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:

Buildings and improvements	30 years
Furniture and equipment	3 to 5 years
Textbooks	4 years

Taxes on Income – The Bloomington Project School, Inc. has received a determination from the U.S. Department of Treasury 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. Tax years ending after 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 5, 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 - REFUNDABLE ADVANCES

The School was awarded grants from the Lilly Foundation, Inc. of $83,576 and $100,000 during the years ended June 30, 2019 and 2018, respectively. The grants are for the purpose of establishing comprehensive counseling services for students and must be utilized for their intended purpose no later than June 30, 2021, after which any remaining unused portion of each grant is subject to reversion to the grantor organization. The unused portion of each grant is shown as a refundable advance on the statements of financial position.

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	2019	2018
Note payable to Indiana Finance Authority	$ 389,065	$ 424,552
Note payable to IFF	1,083,797	1,117,183
Note payable to Bloomington Urban Enterprise Association	2,855	2,917
Common School Fund Loan	48,900	55,420
	1,524,617	1,600,072
Less: current portion	(107,100)	(101,826)
Long-term portion	$ 1,417,517	$ 1,498,246

Indiana Finance Authority Note Payable - The note payable to Indiana Finance Authority is payable in quarterly installments of $17,798, including interest at 5.5% per annum. The loan was funded through the sale of Qualified School Construction Bonds, which provide for the interest to be subsidized by the U.S. Federal Government. The loan is subordinate to the IFF note payable.

IFF Note Payable - The note payable to IFF is payable in monthly installments of $10,028, including interest at 6.875% per annum, with the unpaid balance due on August 1, 2033. The note is secured by a leasehold mortgage, and furniture and equipment. The promissory note with IFF contains several financial and non-financial covenants with which the School is required comply annually. The School was in compliance with all covenants as of June 30, 2019 and 2018.

Bloomington Urban Enterprise Association Note Payable - The note payable to Bloomington Urban Enterprise Association is payable in monthly installments of $208, with the unpaid balance due on August 1, 2019. The note is unsecured and non-interest bearing. Bloomington Urban Enterprise Association is a related party to the School through common management.

Common School Fund Loan - The note payable to the Indiana Common School Fund is payable in semi-annual principal installments of $3,260 from January 2017 to July 2026, with interest at 1% per annum.

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

2020	$ 107,100
2021	110,472
2022	117,080
2023	124,158
2024	131,671
Thereafter	934,136
Total	$ 1,524,617

NOTE 4 - LEASES

The School leases its school facility under an operating lease, which was renewed effective June 30, 2019. The lease requires monthly rental payments in the first year of $7,467, which increase annually over the term of the lease by the lesser of 2% or the consumer price index for the preceding twelve months. The lease expires June 30, 2024 and is renewable for two additional five-year periods. The lease requires the School to pay for certain repairs and maintenance, utilities, and other ongoing expenses required to maintain the facilities.

The School also rents certain items of office equipment under operating leases.

Expense under operating leases was $98,737 and $97,473 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease obligations for non-cancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

2020	$	105,220
2021		100,763
2022		98,129
2023		96,483
2024		98,174

NOTE 5 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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. For the year ended June 30, 2019, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 11.2% for other employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2018 (the latest year reported), TRF and PERF were approximately 80% funded.

In lieu of TRF, teaching faculty can elect benefits under a 403(b) plan, where the School contributes 7.5% of compensation.

Retirement plan expense was $105,180 and $102,801 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were $44,741 and $43,993 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2026 and is renewable thereafter by mutual consent.

The School has contracted with Charter School Management Corporation ("CSMC") to provide finance, business consulting, compliance, payroll, human resources, and other services. This contract remains in effect until June 30, 2024 and is automatically renewed on a year-to-year basis commencing on the last day of the expiring contract, unless written notice of intent to terminate or renegotiate is given by either party at least 60 days prior to expiration of the agreement.

Under the terms of the agreement, the School has agreed to pay CSMC the following amounts for the years ending June 30:

2020	$	56,400
2021		60,000
2022		60,000
2023		60,000
2024		60,000

Expenses under the agreement were $52,920 and $50,400 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides education instruction services to families residing in Monroe 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at Old National Bank are insured up to the FDIC insurance limit of $250,000. Funds held at this financial institution exceed the FDIC insurance limit.

NOTE 8 - 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 statements of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total $322,116, all of which are available to meet cash needs for general expenditures within a 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 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. 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.

THE BLOOMINGTON PROJECT SCHOOL, 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 The Bloomington Project 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*.

SUPPLEMENTAL AUDIT REPORT
OF
THE BLOOMINGTON PROJECT SCHOOL, INC.

MONROE COUNTY, INDIANA

July 1, 2018 to June 30, 2019

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THE BLOOMINGTON PROJECT SCHOOL, INC.
MONROE COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
President of Board of Directors	Rachael McAfee	07/01/18 – 06/30/19
School Leader	Catherine Diersing	07/01/18 – 06/30/19
Business Manager	Terri Burks	07/01/18 – 06/30/19

The Board of Directors
The Bloomington Project School, Inc.

We have audited the financial statements of The Bloomington Project School, Inc. (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated November 5, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
November 5, 2019

THE BLOOMINGTON PROJECT SCHOOL, INC.
MONROE COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

REQUIRED REPORTS

The financial report to the Indiana Department of Education (Form 9) submitted by the School did not properly reflect the cash activity for the period from July 1, 2018 to June 30, 2019. Receipts, expenditures, and ending balances reported in the various fund accounts did not accurately reflect the activity in those funds.

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

THE BLOOMINGTON PROJECT SCHOOL, INC.
MONROE COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on November 5, 2019 with Catherine Diersing (School Leader), Terri Burks (Business Manager), and Lisa Jones (Outsourced Bookkeepers with CSMC). The Official Response has been made a part of this report and may be found on page 5.

the project school
heart | mind | voice

349 S. Walnut Street
Bloomington, IN 474703

November 7, 2019

Donovan CPAs
9292 North Meridian Street, Suite 150
Indianapolis, IN 46260

Audit Finding:

REQUIRED REPORTS
The financial report to the Indiana Department of Education (Form 9) submitted by the School did not properly reflect the cash activity for the period from July 1, 2018 to June 30, 2019. Receipts, expenditures, and ending balances reported in the various fund accounts did not accurately reflect the activity in those funds.

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The Bloomington Project School understands the Form 9 audit finding shown above for the FY 2019 audit. We will be working with our accounting team to resolve the matter going forward. To reiterate the overall balance is in agreement but the activity in the funds will be addressed.

Catherine Diersing, Superintendent

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan
CPAs

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Independent Auditors' Report

The Board of Directors
Friends of Canaan, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Friends of Canaan, Inc. d/b/a Canaan Community Academy, which comprise the statements of financial position as of June 30, 2019 and 2018, 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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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 Friends of Canaan, Inc. d/b/a Canaan Community Academy as of June 30, 2019 and 2018, 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

Donovan

December 12, 2019
Indianapolis, Indiana

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 289,439	$ 180,409
Grants receivable	14,058	14,262
Prepaid expenses	78	18,405
Total current assets	303,575	213,076
PROPERTY AND EQUIPMENT		
Leasehold improvements	7,027	5,646
Furniture and equipment	277,969	272,151
Textbooks	87,548	87,548
Vehicles	95,480	12,300
Less: accumulated depreciation	(362,379)	(349,577)
Property and equipment, net	105,645	28,068
TOTAL ASSETS	$ 409,220	$ 241,144
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 13,917	$ 4,459
Accounts payable and accrued expenses	82,245	53,063
Refundable advances	815	15,598
Total current liabilities	96,977	73,120
LONG-TERM LIABILITIES		
Notes payable, net of current portion	64,583	-
Total liabilities	161,560	73,120
NET ASSETS, WITHOUT DONOR RESTRICTIONS	247,660	168,024
TOTAL LIABILITIES AND NET ASSETS	$ 409,220	$ 241,144

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 933,988	$ 767,584
Grant revenue	303,099	210,804
Student fees	7,968	23,970
Contributions	8,238	27,279
Other income	50,746	17,929
Total revenue and support	1,304,039	1,047,566
EXPENSES		
Program services	942,596	802,529
Management and general	281,807	205,538
Total expenses	1,224,403	1,008,067
CHANGE IN NET ASSETS	79,636	39,499
NET ASSETS, BEGINNING OF YEAR	168,024	128,525
NET ASSETS, END OF YEAR	$ 247,660	$ 168,024

FRIENDS OF CANAAN, INC.

d/b/a CANAAN COMMUNITY ACADEMY

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 544,689	$ 133,695	$ 678,384	$ 458,709	$ 83,347	$ 542,056
Employee benefits	126,740	29,709	156,449	98,341	21,185	119,526
Professional services	121,465	41,939	163,404	63,491	44,955	108,446
Classroom, kitchen, and office supplies	38,308	22,270	60,578	31,354	7,017	38,371
Food costs	29,127	-	29,127	29,414	-	29,414
Occupancy	22,667	-	22,667	20,362	-	20,362
Property rental and maintenance	20,635	-	20,635	28,652	-	28,652
Authorizer oversight fees	-	19,909	19,909	-	16,294	16,294
Insurance	-	18,897	18,897	-	19,237	19,237
Depreciation	12,802	-	12,802	22,934	-	22,934
Equipment	9,682	-	9,682	14,768	-	14,768
Staff development	6,934	-	6,934	22,995	-	22,995
Contracted transportation services	980	-	980	146	-	146
Interest	-	44	44	-	559	559
Other	8,567	15,344	23,911	11,363	12,944	24,307
Total functional expenses	$ 942,596	$ 281,807	$ 1,224,403	$ 802,529	$ 205,538	$ 1,008,067

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

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 79,636	$ 39,499
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,802	22,934
Changes in certain assets and liabilities:		
Grants receivable	204	(12,709)
Prepaid expenses	18,327	2,045
Accounts payable and accrued expenses	29,182	(10,762)
Refundable advances	(14,783)	1,400
Net cash provided by operating activities	125,368	42,407
INVESTING ACTIVITIES		
Purchases of property and equipment	(11,879)	(7,992)
FINANCING ACTIVITIES		
Principal repayments of note payable	(4,459)	(12,956)
NET CHANGE IN CASH	109,030	21,459
CASH, BEGINNING OF YEAR	180,409	158,950
CASH, END OF YEAR	$ 289,439	$ 180,409
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 980	$ 146
Buses financed with a long-term note payable	78,500	-

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Friends of Canaan, Inc. d/b/a Canaan Community Academy (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 Ball State University. Enrollment during the 2018-2019 school year was approximately 120 students in grades kindergarten through six.

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. Net assets as of June 30, 2019 and 2018 were without donor restrictions.

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 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.

Contributions – Contributions received are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal grants 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.

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 are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 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	40 years
Furniture and equipment	3 - 4 years
Textbooks	4 years
Vehicles	5 - 10 years

Taxes on Income – Friends of Canaan, Inc. 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. Tax years ended after 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 12, 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 - DONATED FACILITIES

The School leases its facility under an operating lease with Shelby Township. Shelby Township is providing a donation to the School by allowing it to occupy the government-owned building for an annual lease payment of $1. Even though reporting donated facilities as items of revenue and expense is called for in certain circumstances, the Internal Revenue Service does not permit the inclusion of those amounts on the Form 990. The fair market value of in-kind contributions has not been determined for the years ended June 30, 2019 and 2018, and the fair market value of the premises are not reported in the accompanying financial statements. The School is responsible for all repairs, maintenance, utilities, and insurance. The lease term ends in March 2023.

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2019	2018
Note payable to IFF, payable $1,125 monthly including interest at 4.75% per annum, matured in October 2018, secured by property and equipment	$ -	$ 4,459
Note payable to German American Bank, payable $1,521 monthly including interest at 6.00% per annum, maturing in June 2024, secured by two buses	78,500	-
Less: current portion	(13,917)	(4,459)
Long-term portion	$ 64,583	$ -

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

2020	$ 13,917
2021	14,776
2022	15,687
2023	16,655
2024	17,465

NOTE 4 - RETIREMENT PLAN

The School offers retirement benefits to its employees through both 403(b) and 401(a) defined contribution retirement plans. The 403(b) plan is funded solely by employee contributions. The School contributes 7.5% of each employee’s salary for all full-time employees to the 401(a) plan. Retirement plan expense, net of forfeitures, was $37,015 and $28,165 for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition payments received. The charter remains in effect until June 30, 2022 and is renewable thereafter by mutual consent. Payments under this agreement were $19,909 and $16,294 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides education services to families residing in Jefferson 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all of the accounts receivable balance was due from the State of Indiana.

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. The School’s financial assets include cash and grants receivable. Financial assets at June 30, 2019 total $303,497, all of which are available to meet cash needs for general expenditures within a 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 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 assets. Management of the School has categorized expenses as program service or management and general according to the underlying nature of the expense. As such, no allocations of specific transactions between these categories was required.

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
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 Friends of Canaan, 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.*

SUPPLEMENTAL AUDIT REPORT

OF

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY

JEFFERSON COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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CANAAN COMMUNITY ACADEMY
JEFFERSON COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
President of Board of Directors	David Herring	07/01/18 – 06/30/19
Chief Administrative Officer	Rhonda Pennington	07/01/18 – 06/30/19
Chief Operations Officer	Megan Ritz	07/01/18 – 06/30/19

The Board of Directors
Friends of Canaan, Inc.

We have audited the financial statements of Friends of Canaan, Inc. d/b/a Canaan Community Academy (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated December 12, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 17, 2019

VENDOR DISBURSEMENTS

We tested a sample of twenty-five cash disbursements. Out of the twenty-five items tested, we noted three instances where sales tax was paid.

Charter schools are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application shall be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10).

CANAAN COMMUNITY ACADEMY
JEFFERSON COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on December 17, 2019 with Rhonda Pennington (Chief Administrative Officer) and Megan Ritz (Chief Operations Officer). The Official Response has been made a part of this report and may be found on page 5.

8775 N. Canaan Main Street
P.O. Box 20
Canaan, IN 47224
Rhonda Pennington, Chief Administrative Officer
Megan Ritz, Chief Operations Officer
812-839-0003

December 17, 2019

RE: Management's Response to the Findings in the SBOA Report for Canaan Community Academy

This letter is in response to the findings from Donovan when completing the 2018/2019 Fiscal Year Audit for Canaan Community Academy.

1. Vendor Disbursements
Charter schools are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application shall be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. (Accounting and Uniform Compliance Guidelines manual for Indiana Charter Schools, Part 10)

Remedy: In order to remedy the finding of the inadequacy of the exemption of sales tax for all purchases made by Canaan Community Academy, we will verify that all business we make purchases through have a copy of our sales tax exemption form.

Thank you for your understanding and cooperation of the audit findings during the 2018/2019 Audit of Canaan Community Academy. If you have any other questions or concerns regarding the audit of Canaan Community Academy, please do not hesitate to contact the school at 812-839-0003.

Sincerely,

Megan Ritz

Megan Ritz, Chief Operations Officer

Rhonda Pennington

Rhonda Pennington, Chief Administrative Officer

COMMUNITY MONTESSORI, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan
CPAs

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Independent Auditors' Report

The Board of Directors
Community Montessori, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Community Montessori, 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 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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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 Community Montessori, Inc. as of June 30, 2019 and 2018, 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

Donovan

Indianapolis, Indiana
October 15, 2019

COMMUNITY MONTESSORI, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,311,231	$ 3,111,897
Investments	1,051,890	503,780
Accounts receivable, net of allowance	13,466	13,585
Prepaid expenses	61,301	62,234
Total current assets	4,437,888	3,691,496
PROPERTY AND EQUIPMENT		
Land	150,296	150,296
Buildings and improvements	11,390,788	11,390,788
Furniture and equipment	115,540	115,540
Less: accumulated depreciation	(3,563,529)	(3,274,229)
Property and equipment, net	8,093,095	8,382,395
TOTAL ASSETS	$ 12,530,983	$ 12,073,891
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 260,178	$ 252,799
Accounts payable and accrued expenses	364,722	362,418
Deferred revenue	161,670	151,663
Total current liabilities	786,570	766,880
LONG-TERM LIABILITIES		
Notes payable, net of current portion	5,297,465	5,557,543
Less: unamortized debt issuance costs	(46,631)	(49,234)
Total long-term liabilities, net of unamortized debt issuance costs	5,250,834	5,508,309
Total liabilities	6,037,404	6,275,189
NET ASSETS		
Without donor restrictions:		
Undesignated	5,862,498	5,193,523
Board-designated net assets	500,000	500,000
Total without donor restrictions	6,362,498	5,693,523
With donor restrictions	131,081	105,179
Total net assets	6,493,579	5,798,702
TOTAL LIABILITIES AND NET ASSETS	$ 12,530,983	$ 12,073,891

COMMUNITY MONTESSORI, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
State education support	$ 3,535,509	$ -	$ 3,535,509	$ 3,490,146	$ -	$ 3,490,146
Program fees	606,835	-	606,835	643,093	-	643,093
Grant revenue	434,196	-	434,196	415,467	-	415,467
Student fees	155,355	-	155,355	148,062	-	148,062
Contributions	8,215	31,892	40,107	25,200	37,155	62,355
Fundraising	54,401	-	54,401	53,072	-	53,072
Investment gain (loss)	48,963	-	48,963	(185)	-	(185)
Other	48,341	-	48,341	29,643	-	29,643
Net assets released from restrictions	5,990	(5,990)	-	874	(874)	-
Total revenue and support	4,897,805	25,902	4,923,707	4,805,372	36,281	4,841,653
EXPENSES						
Program services	3,591,364	-	3,591,364	3,717,048	-	3,717,048
Management and general	599,170	-	599,170	584,499	-	584,499
Fundraising	38,296	-	38,296	36,908	-	36,908
Total expenses	4,228,830	-	4,228,830	4,338,455	-	4,338,455
CHANGE IN NET ASSETS	668,975	25,902	694,877	466,917	36,281	503,198
NET ASSETS, BEGINNING OF YEAR	5,693,523	105,179	5,798,702	5,226,606	68,898	5,295,504
NET ASSETS, END OF YEAR	$ 6,362,498	$ 131,081	$ 6,493,579	$ 5,693,523	$ 105,179	$ 5,798,702

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

COMMUNITY MONTESSORI, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 2,102,973	$ 379,395	$ -	$ 2,482,368	$ 2,182,178	$ 338,853	$ -	$ 2,521,031
Employee benefits	454,118	47,573	-	501,691	476,131	58,350	-	534,481
Staff development and recruitment	52,877	-	-	52,877	28,550	-	-	28,550
Professional services	128,991	4,067	-	133,058	100,436	14,969	-	115,405
Program expenses	74,891	-	-	74,891	94,574	-	-	94,574
Authorizer oversight fees	-	87,024	-	87,024	-	85,739	-	85,739
Dues, licenses, and subscriptions	-	18,723	-	18,723	-	18,338	-	18,338
Advertising	-	1,256	-	1,256	-	831	-	831
Travel	-	2,225	-	2,225	-	2,955	-	2,955
Information technology	52,340	-	-	52,340	91,388	-	-	91,388
Minor equipment	7,882	-	-	7,882	22,827	-	-	22,827
Supplies	92,175	4,988	-	97,163	56,302	7,180	-	63,482
Occupancy	158,640	-	-	158,640	191,003	-	-	191,003
Depreciation	289,300	-	-	289,300	289,301	-	-	289,301
Amortization	2,603	-	-	2,603	2,602	-	-	2,602
Interest	174,574	-	-	174,574	181,756	-	-	181,756
Insurance	-	30,931	-	30,931	-	29,057	-	29,057
Fundraising	-	-	38,296	38,296	-	-	36,908	36,908
Other	-	22,988	-	22,988	-	28,227	-	28,227
Total functional expenses	$ 3,591,364	$ 599,170	$ 38,296	$ 4,228,830	$ 3,717,048	$ 584,499	$ 36,908	$ 4,338,455

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

COMMUNITY MONTESSORI, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 694,877	$ 503,198
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	289,300	289,301
Amortization	2,603	2,602
(Gain) loss on investments	(48,110)	185
Change in certain assets and liabilities:		
Accounts receivable	119	6,023
Prepaid expenses	933	(28,048)
Accounts payable and accrued expenses	2,304	23,303
Refundable advances	-	(28,374)
Deferred revenue	10,007	(50,538)
Net cash provided by operating activities	952,033	717,652
INVESTING ACTIVITIES		
Purchase of investments	(500,000)	-
FINANCING ACTIVITIES		
Principal repayment of notes payable	(252,699)	(245,518)
NET CHANGE IN CASH	199,334	472,134
CASH, BEGINNING OF YEAR	3,111,897	2,639,763
CASH, END OF YEAR	$ 3,311,231	$ 3,111,897

	2019	2018
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 174,574	$ 181,756

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Community Montessori, 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 Ball State University. The School also provides an early childhood education program for children ages three and four on a fee basis. For 2018-2019 school year, the School served approximately 600 students in preschool through high school.

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.

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 and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

Board-Designated Net Assets – The Board designated $500,000 of net assets at June 30, 2018 for purposes related to the expansion of the School. The $500,000 remained designated by the Board as of June 30, 2019.

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 publicly funded 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. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Program fees and materials and supplies fees are paid by families based on the number of children enrolled, and are recognized in the academic school year to which the payments pertain.

Contributions – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents – Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

Grants and Accounts Receivable – Grants receivable relate primarily to activities funded under grants 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 account is deemed necessary with regard to grant receivables. Accounts receivable relate primarily to program fees collected annually from the School's students. These accounts receivable are reviewed for collectability annually. The accompanying financial statements reflect an allowance for doubtful accounts of $21,345 and $17,242 as of June 30, 2019 and 2018, respectively, relating to program fees.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

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, minor replacement costs, and equipment purchases with a unit cost of less than $5,000 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:

Buildings and improvements	40 years
Furniture and equipment	3 to 7 years

Deferred Revenue – Deferred revenue consists of early education program fee deposits and materials and supplies fee deposits received as part of the enrollment process for the subsequent academic school year.

Debt Issuance Costs – Debt issuance costs include expenses incurred as part of the July 2016 refinancing of long-term debt. Amortization of the $52,041 in debt issuance costs is provided on a straight-line basis over the 20-year term of the related notes payable. Accumulated amortization was $5,410 and $2,807 as of June 30, 2019 and 2018, respectively. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

Taxes on Income – Community Montessori, Inc. has received a determination from the U.S. Department of Treasury 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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Subsequent Events – The School evaluated subsequent events through October 15, 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 - LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding is paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July 2013 to December 2013 was suspended. This elimination of funding resulted in a non-operating loss of $1,477,941.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School applied for and received repayment of its indebtedness under these obligations as of June 30, 2013. The repayment of debt resulted in non-operating income of $861,897 comprised of the following:

Repayment of Common School Fund loans	$	733,133
Repayment of accrued interest on Common School Fund loans		128,764
	$	861,897

The School believes that it has been adversely affected by the legislative changes relating to the elimination of funding and is pursuing relief through its elected representatives and the Indiana Department of Education. The prospect for success is unknown as of June 30, 2019. The School continues to carry a receivable of $1,477,941 relating to the funding reduction, offset by a collectability allowance in the same amount.

NOTE 3 - INVESTMENTS

The School held the following investments as of June 30:

		2019		2018
Mutual Funds:				
MFS Corporate Bond A	$	137,585	$	124,325
MFS Diversified Income A		140,451		129,000
MFS Limited Maturity A		131,106		125,636
MFS Total Return Bond A		134,868		124,819
Certificate of Deposit		507,880		-
	$	1,051,890	$	503,780

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

		2019		2018
Note payable to German American Bancorp, payable $33,498 monthly, including interest at 2.99% per annum, maturing in July 2036	$	5,354,623	$	5,590,367
Note payable to German American Bancorp, payable $2,108 monthly, including interest at 3.88% per annum, maturing in July 2036		203,020		219,975
		5,557,643		5,810,342
Less: current portion		(260,178)		(252,799)
Long-term portion	$	5,297,465	$	5,557,543

Principal maturities of German American Bancorp notes payable are scheduled as follows for the years ending June 30:

2020	$	260,178
2021		268,882
2022		277,313
2023		286,010
2024		294,617
Thereafter		4,170,643
	$	5,557,643

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent contributions that have been received but not expended for the identified purposes or have been donated for use in future periods. Net assets with donor restrictions were available for the following purposes as of June 30:

	2019	2018
Casa dei Curiosities capital project	$ 128,614	$ 97,582
Community activities	240	1,484
Scholarships	1,000	5,075
Teen support group	1,227	1,038
	$ 131,081	$ 105,179

During 2019 and 2018, net assets of $5,990 and $874, respectively, were released from restriction by incurring expenses satisfying the restricted purposes or due to the passage of time.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. The charter remains in effect until June 30, 2022, and is renewable thereafter by mutual consent. Expense under this agreement was $87,024 and $85,739 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - RELATED PARTY TRANSACTIONS

The School purchased various supplies from a company whose owner is related to a management employee of the School. Total purchases for the years ended June 30, 2019 and 2018 were $16,779 and $18,064, respectively. At June 30, 2019, there were no payables to this vendor. At June 30, 2018 there was a balance of $84 owed to this vendor.

NOTE 8 - RETIREMENT PLANS

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. For the years ended June 30, 2019 and 2018, the School contributed 7.5% of compensation for eligible teaching personnel 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.

All non-teaching personnel are eligible to enroll in a defined contribution Section 403(b) plan. Teaching personnel can also opt to participate in the 403(b) plan in lieu of TRF. Under the 403(b) plan, the School will provide a 3%-6% match of an employee's contribution, depending on years of service. Retirement plan expense under all plans was $113,315 and $118,956 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Floyd and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

Like other publicly funded schools, the majority of revenues relate to legislation enacted by the State of Indiana or 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 German American Bancorp generally exceed the FDIC insurance limit.

NOTE 10 - 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. Financial assets for the School include cash and cash equivalents, investments, and accounts receivable.

Financial assets, June 30, 2019	$	4,376,587
Less those unavailable for general expenditures within one year, due to:		
Board designation for school expansion		(500,000)
Restrictions by donor with time or purpose		(131,081)
Financial assets available to meet cash needs for general expenditures within one year	$	3,745,506

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 Board has the option to un-designate the $500,000 of board designated net assets to meet general obligations.

NOTE 11 - FAIR VALUE MEASUREMENTS

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participants assumptions based on market data obtained from sources independent of the entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the Corporation has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3.* Unobservable inputs for the asset or liability.

The School's statements of financial position include the following financial instruments that are required to be measured at fair value on a recurring basis:

- *Investments in mutual funds* – considered Level 1 assets
- *Investment in a certificate of deposit* – considered Level 2 asset

NOTE 12 - 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, management and general, or fundraising according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Duneland Charter School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School, which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Duneland Charter School, Inc. d/b/a Discovery Charter School as of June 30, 2019 and 2018, 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

Donovan

November 7, 2019
Indianapolis, Indiana

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 480,143	$ 556,654
Grants receivable	11,587	5,165
Student fees receivable	12,329	-
Prepaid expenses	42,266	31,589
Total current assets	546,325	593,408
PROPERTY AND EQUIPMENT		
Land	408,188	408,188
Buildings and improvements	5,925,278	5,918,450
Furniture and equipment	1,215,055	1,135,483
Textbooks	94,956	94,956
Less: accumulated depreciation	(1,490,665)	(1,200,626)
Property and equipment, net	6,152,812	6,356,451
OTHER ASSETS		
Cash and equivalents - restricted for debt service	633,158	629,752
Cash and equivalents - prepaid interest	5,656	5,553
Security deposits	12,990	12,990
Total other assets	651,804	648,295
TOTAL ASSETS	$ 7,350,941	$ 7,598,154
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 117,500	$ 117,500
Accounts payable and accrued expenses	248,044	244,852
Total current liabilities	365,544	362,352
LONG-TERM LIABILITIES		
Notes payable, net of current portion	7,233,750	7,351,250
Less: unamortized debt issuance cost	(319,821)	(331,890)
Total long-term liabilities, net of unamortized debt issuance costs	6,913,929	7,019,360
Total liabilities	7,279,473	7,381,712
NET ASSETS, WITHOUT DONOR RESTRICTIONS	71,468	216,442
TOTAL LIABILITIES AND NET ASSETS	$ 7,350,941	$ 7,598,154

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

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 3,230,658	$ 3,179,112
Grant revenue	576,100	537,371
Student fees	227,758	211,908
Contributions	52,316	59,684
Interest income	4,901	947
Other income	17,711	9,093
Total revenue and support	4,109,444	3,998,115
EXPENSES		
Program services	3,146,964	3,000,089
Management and general	1,107,454	1,121,092
Total expenses	4,254,418	4,121,181
CHANGE IN NET ASSETS	(144,974)	(123,066)
NET ASSETS, BEGINNING OF YEAR	216,442	339,508
NET ASSETS, END OF YEAR	$ 71,468	$ 216,442

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 1,666,305	$ 302,465	$ 1,968,770	$ 1,574,073	$ 286,712	$ 1,860,785
Employee benefits	434,411	75,102	509,513	415,437	70,463	485,900
Staff development	5,720	-	5,720	7,281	-	7,281
Professional services	180,563	11,629	192,192	175,502	6,599	182,101
Repairs and maintenance	49,358	-	49,358	53,657	-	53,657
Authorizer oversight fees	-	85,739	85,739	-	84,315	84,315
Academic services	-	75,000	75,000	-	75,000	75,000
Food services	127,590	-	127,590	136,133	-	136,133
Transportation services	111,734	-	111,734	99,728	-	99,728
Travel	12,490	-	12,490	11,086	-	11,086
Equipment	3,918	8,369	12,287	21,819	8,347	30,166
Classroom, kitchen, and office supplies	113,198	9,004	122,202	81,825	23,397	105,222
Occupancy	94,741	-	94,741	95,273	-	95,273
Information technology	42,530	17,715	60,245	32,036	19,377	51,413
Depreciation	290,039	-	290,039	281,900	-	281,900
Amortization	12,069	-	12,069	12,069	-	12,069
Interest	853	478,769	479,622	152	508,080	508,232
Insurance	-	19,616	19,616	-	18,072	18,072
Other	1,445	24,046	25,491	2,118	20,730	22,848
Total functional expenses	$ 3,146,964	$ 1,107,454	$ 4,254,418	$ 3,000,089	$ 1,121,092	$ 4,121,181

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

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (144,974)	$ (123,066)
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation	290,039	281,900
Amortization	12,069	12,069
Changes in certain assets and liabilities:		
Grants receivable	(6,422)	23,543
Student fees receivable	(12,329)	-
Prepaid expenses	(10,677)	(6,597)
Accounts payable and accrued expenses	3,192	26,601
Net cash provided by operating activities	130,898	214,450
INVESTING ACTIVITIES		
Purchases of property and equipment	(86,400)	(267,014)
FINANCING ACTIVITIES		
Principal payments on notes payable	(117,500)	(117,500)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(73,002)	(170,064)
CASH EQUIVALENTS, BEGINNING OF YEAR	1,191,959	1,362,023
CASH EQUIVALENTS, END OF YEAR	$ 1,118,957	$ 1,191,959
CASH AND CASH EQUIVALENTS, END OF YEAR		
Cash and cash equivalents - unrestricted	$ 480,143	$ 556,654
Cash and cash equivalents - restricted for debt service	633,158	629,752
Cash and cash equivalents - prepaid interest	5,656	5,553
Total cash and cash equivalents, end of year	$ 1,118,957	$ 1,191,959
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 479,622	$ 482,582

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Duneland Charter School, Inc. d/b/a Discovery Charter School (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 serving approximately 530 students in grades kindergarten through eight and is sponsored by Ball State University.

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 retroactive basis, therefore the net assets 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 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 equivalents include money market funds and time deposits with maturities of three months or less at the date of purchase.

Accounts Receivable – Grants receivable relate primarily to activities funded under federal grants 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. Student fees receivable relate to unpaid student fees from the 2018-2019 school year. The School believes that all balances will be collected.

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, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 are generally charged to expense as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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:

Buildings and improvements	20 - 39 years
Furniture and equipment	3 - 7 years
Textbooks	5 years

<u>Debt Issuance Costs</u> – The School incurred costs totaling $362,062 associated with securing financing under the Indiana Finance Authority Education Facilities Revenue Bond. Amortization is provided on a straight-line basis over the 30-year term of the bond. Accumulated amortization as of June 30, 2019 and 2018 was $42,241 and $30,172, respectively. Amortization expense was $12,069 for both years ended June 30, 2019 and 2018. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

<u>Taxes on Income</u> – The School has received a determination from the U.S. Department of Treasury 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. Tax years ended after 2015 are open to audit for both federal and state purposes.

<u>Subsequent Events</u> – The School evaluated subsequent events through November 7, 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 - RESTRICTED CASH

Cash - restricted for debt service is reserved solely for the payment of principal and interest on the bond in the event that other funding is unavailable to meet payment requirements. Of the total balance, approximately $600,000 is to be held until all bond debt is paid.

Cash – prepaid interest represents escrowed prepayments of interest due on the bond in future years.

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	2019	2018
Indiana Finance Authority Educational Facilities Revenue Bond, Series 2015A with an original amount of $7,230,000. The principal amount was reduced by $760,000 using financing from the State of Indiana. The loan principal is payable in annual installments that increase from $155,000 to $580,000 from December 2026 to December 2045. Interest payments are made semi-annually at a rate of 7.25% in accordance with the bond agreement. The bond obligation is secured by land, buildings, and improvements.	$ 6,470,000	$ 6,470,000
Note payable to the Indiana Common School Fund with an original amount of $1,175,000. The note requires semi-annual payments of $58,750 plus interest at 1% per annum from January 2017 to July 2026	881,250	998,750
	7,351,250	7,468,750
Less: current portion	(117,500)	(117,500)
Long-term portion	$ 7,233,750	$ 7,351,250

The Indiana Finance Authority Educational Facilities Revenue Bond agreement contains certain covenants requiring minimum unrestricted cash reserves sufficient to meet 30 days of operating expenses and establishes a minimum debt service coverage ratio of 1.10 to 1. The School was in compliance with covenants for 2019 and 2018.

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

2020	$ 117,500
2021	117,500
2022	117,500
2023	117,500
2024	117,500
Thereafter	6,763,750
	$ 7,351,250

NOTE 4 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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. For the year ended June 30, 2019, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 11.2% for other employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2018 (the latest year reported), TRF and PERF were approximately 80% funded.

The School also maintains a Section 403(b) retirement plan. Employees may contribute up to 100% of their compensation provided they are at least 18 years of age and have at least 30 days of employment. There is no provision for an employer match.

Retirement plan expenses totaled $154,784 and $149,263 during the years ended June 30, 2019 and 2018, respectively.

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were $85,739 and $84,315 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2020 and is renewable thereafter by mutual consent.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Porter 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 - RISKS AND UNCERTAINTIES, Continued

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained at Chase Bank, BMO Harris and Huntington Bank, and 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. The School's financial assets include cash and grants and student fees receivable.

Financial assets, June 30, 2019	$	1,142,873
Less those unavailable for general expenditures within one year, due to:		
Cash and cash equivalents restricted for debt service		(633,158)
Cash and cash equivalents restricted for construction		(5,656)
Financial assets available to meet cash needs for general expenditures within one year	$	504,059

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 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 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.

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL
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 Duneland Charter School, Inc.
d/b/a Discovery Charter School

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*.

SUPPLEMENTAL AUDIT REPORT

OF

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

PORTER COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

PORTER COUNTY, INDIANA

School Officials

July 1, 2018 to June 30, 2019

Office	Official	Term
Board President	Linda Simon	07/01/18 – 06/30/19
Board Treasurer	William Schmuhl	07/01/18 – 06/30/19
School Director	Ernesto Martinez	07/01/18 – 06/30/19

The Board of Directors
Duneland Charter School, Inc.

We have audited the financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated November 7, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
November 7, 2019

FINANCIAL REPORTING

Our examination of the semi-annual financial report to the Indiana Department of Education (Form 9) for the period January 1, 2018 to June 30, 2019 revealed that the June 30, 2019 cash balance did not reflect the balance as reported on the School's books and records. The balance reported on Form 9 was \$1,156,355 while cash per the financial statements was \$1,118,957. In addition, fund 900 had a negative balance which did not appear to be the result of awaiting reimbursement on a cost-reimbursement grant.

Charter schools are required to submit a Form 9 Biannual Financial Report two times per year during the months of January and July. The financial information in the Form 9 shall reflect cash basis information. The January report must include previous calendar year financial and other required information for the period July 1 to December 31 financial data. The July report must include current calendar year financial and other required information for the period January 1 to June 30. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 9)

The charter school's accounting system must facilitate the preparation of the periodic financial reports for administrative review and the required year-end financial statements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

RECEIPTS AND DEPOSITS

We selected a sample of 25 receipts from the School's receipt books for testing. From the receipts selected, we identified 11 that were not deposited in a timely manner. Also, 7 could not be traced directly to a deposit.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of payors. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

VENDOR DISBURSEMENTS

We selected 25 vendor disbursements for testing. From those tested, we identified 3 instances of payment of sales tax, totaling approximately $50.

Charter schools are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application shall be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL

PORTER COUNTY, INDIANA

Exit Conference

July 1, 2018 to June 30, 2019

The contents of this report were discussed on November 7, 2019 with Ernesto Martinez (School Director) and Allan Gabriele (School Treasurer). The Official Response has been made a part of this report and may be found on page 6.

RESPONSE TO SUPPLEMENTAL AUDIT
OF
DUNELAND CHARTER SCHOOL, INC.
DBA DISCOVERY CHARTER SCHOOL

July 1, 2018 to June 30, 2019

The Supplemental Audit Report for Discovery Charter School for our year ended June 30, 2019 contained results and comments in three areas: Financial Reporting, Receipts and Deposits, and Vendor Disbursements.

The financial reporting finding noted a discrepancy between cash balance as reported on Form 9 for the six months ended June 30, 2019 and the financial statements for the year then ended of approximately $37,398. This was the result of a misunderstanding of the Form 9 cash basis tie in which was made to a verifiable bank balance rather than the reconciled book balance. This has been corrected and will not affect a future Form 9. In addition, the negative balance in fund 0900, the Textbook Reimbursement Fund, is the result of textbook rental fees coming in throughout the year as part of other student fees and not reaching the level of textbook purchases made in the beginning of the year. Since fees collected are for rentals of textbooks and textbooks last for longer than the year in which they were purchased, this account will naturally fluctuate over time.

Fees received for student trips were sometimes not deposited in the bank in a timely matter. They were kept in a safe in reconciling envelopes until deposits could be made. This was due to an unprecedented amount of spring field trips and a heavy testing schedule in the month of May. We have enacted procedures to more efficiently receive and reconcile field trip receipts at the classroom level and deposit immediately when turned in to the office.

The payment of sales tax to a minor amount of vendors was inadvertent and a procedure has been implemented to review sales tax entries on vendor invoices.

Allan Gabriele
Business Manager, Discovery Charter School

November 8, 2019

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Donovan CPAs

Independent Auditors' Report

The Board of Directors
East Chicago Urban Enterprise Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of East Chicago Urban Enterprise Academy, 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 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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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 East Chicago Urban Enterprise Academy, Inc. as of June 30, 2019 and 2018, 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

Indianapolis, Indiana
October 3, 2019

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 13,829	$ 185,726
Grants receivable	94,030	32,906
Prepaid expenses	20,672	19,989
Total current assets	128,531	238,621
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,408,538	2,408,538
Furniture and equipment	316,076	194,366
Less: accumulated depreciation	(1,047,959)	(937,313)
Property and equipment, net	1,676,655	1,665,591
OTHER ASSETS		
Security deposit	7,828	7,803
TOTAL ASSETS	$ 1,813,014	$ 1,912,015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 233,761	$ 224,567
Accounts payable and accrued expenses	413,768	290,540
Refundable advance	17,806	-
Total current liabilities	665,335	515,107
LONG-TERM LIABILITIES		
Notes payable, net of current portion	640,414	864,935
Total liabilities	1,305,749	1,380,042
NET ASSETS, WITHOUT DONOR RESTRICTIONS	507,265	531,973
TOTAL LIABILITIES AND NET ASSETS	$ 1,813,014	$ 1,912,015

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 2,986,286	$ 3,004,927
Grant revenue	1,028,666	917,154
Student fees	34,524	33,877
Contributions	332	662
Other income	38,285	29,298
Total revenue and support	4,088,093	3,985,918
EXPENSES		
Program services	3,249,313	3,120,166
Management and general	863,488	881,631
Total expenses	4,112,801	4,001,797
CHANGE IN NET ASSETS	(24,708)	(15,879)
NET ASSETS, BEGINNING OF YEAR	531,973	547,852
NET ASSETS, END OF YEAR	$ 507,265	$ 531,973

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 1,556,558	$ 210,625	$ 1,767,183	$ 1,400,588	$ 199,701	$ 1,600,289
Employee benefits	498,562	60,378	558,940	397,067	57,956	455,023
Professional services	172,543	17,305	189,848	147,337	27,928	175,265
Depreciation	110,646	-	110,646	117,551	-	117,551
Classroom, kitchen, and office supplies	129,441	25,842	155,283	160,152	30,400	190,552
Food costs	233,193	-	233,193	196,496	-	196,496
Insurance	-	27,617	27,617	-	21,721	21,721
Occupancy	364,249	15,336	379,585	482,980	7,430	490,410
Authorizer oversight fees	-	33,316	33,316	-	66,440	66,440
Management services	-	404,700	404,700	-	393,774	393,774
Equipment	61,714	5,163	66,877	58,618	7,421	66,039
Property rental and maintenance	45,049	-	45,049	44,710	184	44,894
Instruction services	18,167	-	18,167	12,007	-	12,007
Interest	-	39,974	39,974	-	44,924	44,924
Advertising	-	2,475	2,475	-	3,382	3,382
Travel	20,614	887	21,501	25,578	1,608	27,186
Information technology	15,031	4,107	19,138	43,999	-	43,999
Other	23,546	15,763	39,309	33,083	18,762	51,845
Total functional expenses	$ 3,249,313	$ 863,488	$ 4,112,801	$ 3,120,166	$ 881,631	$ 4,001,797

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (24,708)	$ (15,879)
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation	110,646	117,551
Change in certain assets and liabilities:		
Grants receivable	(61,124)	5,459
Prepaid expenses	(683)	(19,989)
Security deposit	(25)	-
Accounts payable and accrued expenses	123,228	58,544
Refundable advance	17,806	-
Net cash provided by operating activities	165,140	145,686
INVESTING ACTIVITIES		
Purchases of property and equipment	(121,710)	(87,358)
FINANCING ACTIVITIES		
Principal payments on notes payable	(224,990)	(216,730)
Proceeds from notes payable	9,663	-
Net cash used by financing activities	(215,327)	(216,730)
NET CHANGE IN CASH	(171,897)	(158,402)
CASH, BEGINNING OF YEAR	185,726	344,128
CASH, END OF YEAR	$ 13,829	$ 185,726
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 39,974	$ 44,924

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – East Chicago Urban Enterprise Academy, 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 serving approximately 415 students in grades kindergarten through eighth and is sponsored by Ball State University.

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 net assets 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 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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Taxes on Income – East Chicago Urban Enterprise Academy, Inc. 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 included in the accompanying financial statements.

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

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. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

Asset Category	Capitalization Threshold	Estimated Useful Life
Buildings and improvements	$25,000	15 to 39 years
Furniture and equipment	Individual items: $5,000	3 to 7 years
	Aggregate of similar or identical items on a single purchase order: $12,500	

Subsequent Events – The School evaluated subsequent events through October 3, 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 CONSIDERATIONS

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As of June 30, 2019, the School's current liabilities are greater than current assets by approximately $537,000. Accounts payable and accrued expenses as of June 30, 2019 increased approximately $123,000 compared to June 30, 2018. A majority of the balance in accounts payable and accrued expenses represents current payroll and future payroll to fulfill school year teaching contracts, totaling approximately $308,000. The School also suffered a negative change in net assets during the year ended June 30, 2019 of approximately $25,000 and incurred a net cash outflow of approximately $172,000. If this trend continues, these factors could threaten the School's ability to continue as a going concern.

NOTE 2 - GOING CONCERN CONSIDERATIONS, Continued

The School's management is aware of the negative financial results presented in the previous paragraph and has taken the following measures to improve its finances. The School has focused its efforts on enrollment, which resulted in a slight increase during the fall fiscal year 2020 semester compared to the spring 2019 semester. The School has also worked with its management company to develop a budget for fiscal year 2020 that will allow the School to meet its current and upcoming obligations and strengthen its net asset position. This budget includes revenue from additional funding sources as a result of the School's focused efforts on identifying and securing additional grant opportunities.

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2019	2018
Line of credit, refinanced to a term note, payable to a related party in monthly installments of $11,267 including interest at 1.0% per annum through July 2020, secured by all School assets	$ 139,825	$ 272,905
Finance agreement, payable in monthly installments of $301, including interest at 8.0% per annum through July 2021, secured by equipment	6,905	-
Mortgage note payable in monthly installments of $10,538 including interest at 4.75% through February 2022, thereafter payable in monthly installments of $10,437 including interest at a variable rate based on 1-Year Treasury Constant Maturity rate plus margin of 3.00%, adjustable annually, through March 2026, secured by a mortgage on School facilities and all School assets	727,445	816,597
	874,175	1,089,502
Less: current maturities	(233,761)	(224,567)
Long-term portion	$ 640,414	$ 864,935

NOTE 3 - NOTES PAYABLE, Continued

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

2020	$	233,761
2021		109,449
2022		105,055
2023		108.669
2024		113,557
Thereafter		203,684
Total	$	874,175

NOTE 4 - LEASES

The School leases its building from party related through a common Board of Directors, and modular classrooms and equipment from unrelated parties, all under operating leases. Total expense under these operating leases was $251,554 and $240,096 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2020	$	95,940
2021		12,068
2022		1,437

NOTE 5 - RETIREMENT PLANS

Retirement benefits for School employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Substantially all full-time employees are eligible to participate.

Contribution requirements of plan members are established by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 11.2% of compensation for other employees of PERF. 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 approximately 80% funded.

Retirement plan expense was $146,860 and $135,333 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Payments under this charter agreement were $66,632 and $66,440 for the years ended June 30, 2019 and 2018, respectively. The charter will remain in effect until June 30, 2021 and is renewable thereafter by mutual consent.

The School has also contracted with The Leona Group, LLC to provide financial, management, administrative and educational programming services. Under the terms of the agreement, the School agrees to pay an amount equal to 10% of revenues, as defined, for such services. The contract will expire June 30, 2021. Payments under this contract were $404,700 and $393,774 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Lake 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at Peoples Bank and are insured up to the FDIC insurance limit.

NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The cost 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 between these categories of expenses was required.

NOTE 9 - 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. Financial assets at June 30, 2019 total $107,859, all of which are available to meet cash needs for general expenditures within one year.

While the School has $107,859 in financial assets available to meet cash needs for general expenditures within one year, it also has $665,335 in current liabilities as of June 30, 2019 which must be paid using these available financial assets, future year state tuition support, or some combination of the two. This deficit in financial assets net of financial liabilities will result in a significant strain on the School's financial resources.

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.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, 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 East Chicago Urban Enterprise Academy, 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.*

SUPPLEMENTAL AUDIT REPORT

OF

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

LAKE COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
LAKE COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Chairman of Board of Directors	John Artis	07/01/18 – 06/30/19
School Leader	Veronica Eskew	07/01/18 – 06/30/19
School Treasurer	Melinda Benkovsky	07/01/18 – 06/30/19

Donovan CPAs

To the Board of Directors
East Chicago Urban Enterprise Academy, Inc.

We have audited the financial statements of East Chicago Urban Enterprise Academy, Inc. (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated October 3, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
October 3, 2019

CASH RECEIPTS AND DEPOSITS

The School receives cash payments for various purposes, including uniforms, fundraisers, and student fees. Procedures were in place to process cash collections, however, out of the 25 receipts selected for testing, 15 were not deposited in a timely manner.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

REQUIRED REPORTS

Within the Form 9 report filed by the School, there were three funds with negative balances that were not the result of awaiting reimbursement on reimbursement grants. The Education, Debt Service and Non-English Speaking Program funds had negative balances as of June 30, 2019.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which shall be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

SUSPENSION WITH PAY

One employee of the School received suspension with pay. The School did not obtain a written opinion from an attorney.

Suspension with pay must be supported by the written opinion of the attorney for the charter school stating that the suspension is in accordance with all federal laws and regulations, and state laws, as applicable. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
LAKE COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on October 3, 2019 with Ms. Veronica Eskew (School Leader), Mr. John Artis (Chairman of Board of Directors), Ms. Kimberly Edwards (Board Treasurer), Melinda Benkovsky and Renee Lindemann (Leona Group). The Official Response has been made a part of this report and may be found on page 5.

The following letter is in response to the Supplemental Audit Report for East Chicago Urban Enterprise Academy for the 2018-2019 audit.

CASH RECEIPTS AND DEPOSITS

Finding:

The School receives cash payments for various purposes, including uniforms, fundraisers, and student fees. Procedures were in place to process cash collections, however, out of the 25 receipts selected for testing, 15 were not deposited timely.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

School Response:

East Chicago Urban Enterprise Academy will abide by the Accounting and Uniform Compliance Guideline Manual for Indiana Charter Schools, Part 8, and shall deposit all funds received in the designated depository in a timely manner. In order to increase efficiency, the Academy is exploring options such as the Square payment reader, which will allow parents to pay by credit card, reducing the amount of cash transactions that will need to be deposited by the Academy. Implementation of such payment methods is expected to take place during the 2019-2020 school year.

REQUIRED REPORTS

Finding:

Within the Form 9 report filed by the School, there were three funds with negative balance that were not the result of awaiting reimbursement on reimbursement grants. The Education, Debt Service and Non-English Speaking Program funds had negative balances as of June 30, 2019.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which shall be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

School Response:

East Chicago Urban Enterprise Academy will abide by the Accounting and Uniform Compliance Guideline Manual for Indiana Charter Schools, Part 10, and shall ensure that no fund is reduced below zero. All funds shall comply with all local, state and federal regulations.

The Debt Service fund and Non-English Speaking Program fund will be corrected for the December 31, 2019 Form 9 report filing. Going forward, the Academy has put measures in place to ensure that the Education fund does not operate in a deficit. This will be monitored through regular monthly reviews by management, and will be communicated with leadership staff at the Academy to ensure this target is met. This will allow the Academy to make timely modifications to the program as necessary in order to avoid a fund deficit.

SUSPENSION WITH PAY

Finding:

One employee of the School received suspension with pay. The School did not obtain a written opinion from an attorney.

Suspension with pay must be supported by the written opinion of the attorney for the charter school stating that the suspension is in accordance with all federal laws and regulations, and state laws, as applicable. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

School Response:

East Chicago Urban Enterprise Academy will abide by the Accounting and Uniform Compliance Guideline Manual for Indiana Charter Schools, Part 10. The Academy consulted with management's human resource department before a determination on suspension with made. However, no written opinion was obtained by the Academy's legal counsel. Going forward, the Academy will also obtain the necessary opinion by the attorney for all cases of suspension with pay in order to remain compliant.

Sincerely,

John D. Artis

John Artis, Board of Directors

10/8/19

Date

DR. ROBERT H. FAULKNER ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Dr. Robert H. Faulkner Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Dr. Robert H. Faulkner Academy, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dr. Robert H. Faulkner Academy, Inc. as of June 30, 2019 and 2018 and the change 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 Regarding School Closure

As discussed in Note 2, the School's Board of Directors voted to cease operations of the School effective August 1, 2019. The accompanying financial statements do not include any adjustments related to the closing of the School.

DONOVAN

Donovan

September 12, 2019
Indianapolis, Indiana

DR. ROBERT H. FAULKNER ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 61,488	$ 48,514
Grants receivable	7,909	23,599
Prepaid expenses	747	9,839
Total current assets	70,144	81,952
PROPERTY AND EQUIPMENT		
Furniture and equipment	369,589	369,589
Textbooks	191,612	194,752
Leasehold improvements	24,341	24,341
Less: accumulated depreciation	(572,903)	(552,799)
Property and equipment, net	12,639	35,883
TOTAL ASSETS	$ 82,783	$ 117,835
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 66,577	$ 87,518
NET ASSETS, WITHOUT DONOR RESTRICTIONS	16,206	30,317
TOTAL LIABILITIES AND NET ASSETS	$ 82,783	$ 117,835

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

DR. ROBERT H. FAULKNER ACADEMY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 659,439	$ 598,995
Grant revenue	189,500	240,559
Student fees	8,698	8,117
Contributions:		
In-kind rent	68,000	-
Other	11,750	54
Insurance reimbursement	49,880	-
Other income	2,027	616
Total revenue and support	989,294	848,341
EXPENSES		
Program services	700,482	804,418
Management and general	302,923	270,791
Total expenses	1,003,405	1,075,209
CHANGE IN NET ASSETS	(14,111)	(226,868)
NET ASSETS, BEGINNING OF YEAR	30,317	257,185
NET ASSETS, END OF YEAR	$ 16,206	$ 30,317

DR. ROBERT H. FAULKNER ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 337,482	$ 146,476	$ 483,958	$ 369,547	$ 127,709	$ 497,256
Occupancy	126,735	-	126,735	125,583	-	125,583
Employee benefits	81,176	38,296	119,472	100,719	26,492	127,211
Professional services	40,185	70,025	110,210	49,433	61,815	111,248
Food costs	53,686	-	53,686	51,345	-	51,345
Technology	27,498	-	27,498	57,692	11,300	68,992
Depreciation	20,104	-	20,104	24,235	-	24,235
Authorizer oversight fee	-	14,932	14,932	-	13,446	13,446
Administrative service fee	-	13,189	13,189	-	11,980	11,980
Supplies	9,354	3,083	12,437	7,808	5,658	13,466
Insurance	-	9,930	9,930	-	2,830	2,830
Repairs and maintenance	3,481	-	3,481	9,010	-	9,010
Staff development	781	-	781	9,046	-	9,046
Other	-	6,992	6,992	-	9,561	9,561
Total functional expenses	$ 700,482	$ 302,923	$ 1,003,405	$ 804,418	$ 270,791	$ 1,075,209

DR. ROBERT H. FAULKNER ACADEMY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (14,111)	$ (226,868)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	20,104	24,235
Loss on disposal property and equipment	3,140	-
Changes in certain assets and liabilities:		
Grants receivable	15,690	(13,633)
Prepaid expenses	9,092	(600)
Accounts payable and accrued expenses	(20,941)	(28,494)
CHANGE IN CASH	12,974	(245,360)
CASH, BEGINNING OF YEAR	48,514	293,874
CASH, END OF YEAR	$ 61,488	$ 48,514

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

DR. ROBERT H. FAULKNER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Dr. Robert H. Faulkner Academy, 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 Ball State University. The School has contracted The Leona Group, LLC to provide management and administrative services. During the year ended June 30, 2019, the School served approximately 90 students in grades kindergarten through sixth. Subsequent to year end, the School elected to cease school operations effective August 1, 2019 (see Note 2).

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 must be applied on a retrospective basis, therefore the net assets 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 generally 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 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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Taxes on Income – Dr. Robert H. Faulkner Academy, Inc. has received a determination from the U.S. Internal Revenue Service 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.

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

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, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 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:

Furniture and equipment	3 to 4 years
Textbooks	4 years
Leasehold improvements	5 years

Subsequent Events – The School evaluated subsequent events through September 12, 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. Refer to Note 2, Subsequent Event.

NOTE 2 - SUBSEQUENT EVENT

The School's Board of Directors voted in July 2019 to cease operations of the School effective August 1, 2019. The accompanying financial statements do not include any adjustments related to the closing of the School.

NOTE 3 - LEASES

The School entered into a lease for its school facility with monthly payments of $8,500 through August 2023. The School received forgiveness of monthly lease payments from November 1, 2018 through August 1, 2019. The forgiven amount is recorded as in-kind donations in the amount of $68,000 for the year ended June 30, 2019. Expense under operating leases was $103,928 and $107,852 for the years ended June 30, 2019 and 2018, respectively, including the in-kind portion.

The School is in discussions with the landlord, St. Paul Missionary Baptist Church, regarding terminating the lease. The accompanying financial statements do not reflect any lease buyout obligations, if any would exist.

NOTE 4 - RETIREMENT PLANS

All School personnel are employees of The Leona Group, LLC, which provides management services to the School. School personnel are eligible to participate in The Leona Group, LLC Section 401(k) Plan. Under the plan, the School matches employee contributions dollar for dollar up to 6% of base compensation. Substantially all full-time employees are eligible to participate. Retirement plan expense was $7,211 and $7,785 for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $14,932 and $13,446 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2023 and is renewable thereafter by mutual consent. The charter will be terminated with the closing of the School.

The School has contracted with The Leona Group, LLC to provide ongoing consulting services with regard to school administration and management, training, and grant writing. Under the terms of the agreement, the School has agreed to pay an amount equal to 2% of state education support revenue, as defined, for these services. Such fees were $13,189 and $11,980 for the years ended June 30, 2019 and 2018, respectively. Additionally, the School has contracted with The Leona Group, LLC to provide employee leasing services. Under the terms of the agreement, the School has agreed to pay an amount equal to 4% of state education support revenues, as defined, for this service. Such fees were $26,378 and $23,960 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - RISKS AND UNCERTAINTIES

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. 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 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. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total $69,397, all of which are available to meet cash needs for general expenditures within a 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 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 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.

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS
June 30, 2019 and 2018

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS
June 30, 2019 and 2018

CONTENTS

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gary Middle College, Inc.
Gary, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Gary Middle College, Inc. (the School), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities 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.

Auditor's 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 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gary Middle College, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its 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 1 to the financial statements, the School has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities* for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
January 13, 2020

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 632,019	$ 351,016
Grants receivable	31,987	38,741
Prepaid expenses	44,450	20,625
Due from related parties (Note 5)	1,171	47,214
Property and equipment, net (Note 2)	576,061	546,719
Total assets	$ 1,285,688	$ 1,004,315
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 100,588	$ 83,595
Deferred revenue	10,069	-
Due to related parties (Note 5)	16,205	7,237
Note payable (Note 4)	150,000	170,000
Total liabilities	276,862	260,832
NET ASSETS		
Without donor restrictions	1,008,826	743,483
Total liabilities and net assets	$ 1,285,688	$ 1,004,315

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2019 and 2018

	2019	2018
Public support and revenues		
Federal grants	$ 145,210	$ 136,690
State and local grants	1,770,037	1,760,615
Supporting services	5,728	8,474
Rental income	73,703	-
Total revenue and support	1,994,678	1,905,779
Expenses		
Education services	1,522,173	1,472,781
Management and general	207,162	185,281
Total expenses	1,729,335	1,658,062
Change in net assets	265,343	247,717
Net assets, beginning of year	743,483	495,766
Net assets, end of year	$ 1,008,826	$ 743,483

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 265,343	$ 247,717
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	129,085	121,606
Change in assets and liabilities		
Grants receivable	6,754	40,358
Prepaid expenses	(23,825)	(1,458)
Due to/from related parties	55,011	(54,439)
Accounts payable and other accrued expenses	16,993	(26,790)
Deferred revenue	10,069	-
Net cash from operating activities	459,430	326,994
Cash flows from investing activities		
Purchases of property and equipment	(158,427)	(189,770)
Net cash from investing activities	(158,427)	(189,770)
Cash flows from financing activities		
Payments on note payable	(20,000)	(20,000)
Net cash from financing activities	(20,000)	(20,000)
Net change in cash and cash equivalents	281,003	117,224
Cash and cash equivalents, beginning of year	351,016	233,792
Cash and cash equivalents, end of year	$ 632,019	$ 351,016
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,651	$ 1,850

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization: Gary Middle College, Inc. (the School) is a nonprofit corporation established to operate a charter school. The School is dedicated to ensure that all students are armed with the skills and tools they will need to not only receive a high school diploma, but also to excel at the collegiate level.

The School was established under the laws of the State of Indiana, and operates under a Board of School Directors form of government.

Method of Accounting: The School maintains its accounts on the accrual basis of accounting and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income Taxes: The School is exempt from income taxes on income from related activities under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the School is not considered to be a private foundation under Section 509(a) of the Internal Revenue Code.

The School has adopted applicable guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that 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 benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

The School does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The School recognizes interest and/or penalties related to income tax matters in income tax expense. The School did not have any amounts accrued for interest and penalties at June 30, 2019 and 2018.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000. Bank balances may periodically exceed FDIC insured limits. For the purpose of the statement of cash flows, the School considers all highly liquid instruments, if any, purchased with a maturity of three months or less to be cash equivalents.

Grants Receivable: Grants receivable balances consist of amounts billed or billable for services provided or contracted and are due within one year. The School does not accrue interest on any of its grants receivables.

Allowances: No allowance for doubtful accounts is recorded as of June, 30, 2019 and 2018. The allowances are based upon prior experience and management's analysis of specific receivables and promises to give. Losses are charged off to the reserve when management deems further collection efforts will no longer produce additional recoveries. The School currently considers all receivables to be fully collectible.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Expenditures for property and equipment and items in excess of $500 which substantially increase the useful lives of existing assets are capitalized at cost or at fair value at date of gift. Repairs and maintenance costs are expensed as incurred. Depreciation has been computed on straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

Property and equipment	3-7 years

Impairment of Long-Lived Assets: In accordance with GAAP, the School reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. As of June 30, 2019 and 2018, management believes that no impairment exists.

Fair Value of Financial Instruments: The carrying value of all the School's financial instruments, which include cash and cash equivalents, accounts payable and note payable, approximate fair values. Grants receivable are not readily marketable. The School has estimated their fair value to be the carrying value.

Basis of Presentation: The School follows GAAP and reports information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – The net asset without donor restrictions class includes general assets and liabilities of the School. The net assets without donor restrictions of the School may be used at the discretion of management to support the School's purposes and operations.

Net Assets With Donor Restrictions – The net asset with donor restrictions class includes assets of the School related to gifts and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates.

The net asset with donor restrictions class also includes assets of the School related to contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School had no net assets with donor restrictions as of June 30, 2019 and 2018.

Federal and State Grants: Support funded by grants is recognized as the School performs the contracted services under various grant agreements. Grant revenue is typically recognized as earned as the eligible expenses are incurred. Some of the School's grant agreements are not on a cost reimbursement basis, and support is recognized when earned. This includes the School's basic grant support from the State which is based on per-pupil funding. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Functional and Allocated Expenses: Expenses have been classified as program services and supporting services based on the actual direct expenditures and estimated cost allocations. Supporting services include management and general activities of the School. The School did not incur any fundraising expenses for the years ended June 30, 2019 and 2018.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising: The School expenses advertising costs as incurred. During 2019 and 2018, expenses totaling $14,809 and $11,867, were incurred for advertising.

Recently Adopted Accounting Guidance: In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for profit financial reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the School to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories; net assets without donor-imposed restrictions and net assets with donor-imposed restrictions, among other requirements. The School adopted ASU 2016-14 for its fiscal year ending June 30, 2019 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The implementation of this ASU did not have a material effect on amounts previously presented.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2019, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2019. Management has performed their analysis through January 13, 2020, the date the financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

At June 30, the carrying value of property and equipment consists of the following:

	2019	2018
Property and equipment	$ 1,223,266	$ 1,074,335
Less: accumulated depreciation and amortization	(647,205)	(527,616)
	$ 576,061	$ 546,719

Depreciation expense for the years ended June 30, 2019 and 2018 was $129,085 and $121,606, respectively.

NOTE 3 - LEASES

In 2016, the School entered into a five-year building lease agreement with a third party through 2022. The original five-year lease term includes subsequent renewal options. Rent expense totaled $52,757 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under operating leases at June 30, 2019, are as follows:

2020	$ 57,023
2021	61,690
2022	21,120
	$ 140,167

(Continued)

NOTE 4 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	2019	2018
Note payable to State of Indiana Treasurer to support school operations, payable semi-annually beginning January 2017, plus interest computed at 1.00%, through maturity in August 2026.	$ 150,000	$ 170,000

The estimated future principal payments due on the note payable are:

2020	$ 20,000
2021	20,000
2022	20,000
2023	20,000
2024	20,000
Thereafter	50,000
	$ 150,000

Interest expense during the years ending June 30, 2019 and 2018 was $1,542 and $1,767, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

The School has a management agreement with the Greater Education Opportunities Foundation, Inc., (GEOF). Under the management agreement, GEOF charges administrative and per student fees in exchange for the management, operation, administration, payroll and accounting services provided. During the years ended June 30, 2019 and 2018, the School paid GEOF fees of $174,111 and $226,397, respectively. As part of the management services provided, GEOF acts as the payor of certain operating expenses, which are reimbursed to GEOF by the School. The School's Board retains final authority and responsibility for financial and budgetary commitments. At June 30, 2019 and 2018, the School had a payable to GEOF for $16,205 and $2,580, respectively. At June 30, 2019 and 2018, the School had a receivable from GEOF in the amount of $424 and $0, respectively.

The School periodically has receivables and payables with other charter schools managed by GEOF for shared costs. At June 30, 2019 and 2018, the School had a receivable balance in the amount of $747 and $773 due from 21st Century Charter School @ Gary, Inc. and a payable to 21st Century Charter School @ Gary, Inc. in the amount of $0 and $4,657 for various payroll transactions between these entities. In August 2018, GEOF opened another school doing business as Gary Middle College West (GMC West). The School had a receivable balance in the amount of $46,441 due from GMC West at June 30, 2018 for startup costs incurred which will be reimbursed to the School. There was no receivable outstanding related to GMC West at June 30, 2019.

On July 1, 2018, the School entered into a six-year building lease agreement with GMC West maturing on June 30, 2024. The lease requires monthly rent payments of $6,142 and includes a purchase option for GMC West to purchase the facility from the School at fair market value. The School recognized rental income of $73,703 for the year ended June 30, 2019.

(Continued)

NOTE 6 - CHARTER AGREEMENT

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay Ball State University an annual administrative fee equal to 3% of State tuition support, along with other licensing fees. Payments under this charter agreement were $23,442 and $14,046 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - PENSION PLANS

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the plan. There were no employer matching contributions to the plan for the years ended June 30, 2019 and 2018.

The School participates in the Indiana Public Retirement System (INPRS). INPRS includes both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). PERF is a defined benefit pension plan. PERF is a cost sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. TRF is a defined benefit pension plan. TRF is a cost-sharing multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The School employees are required to contribute three percent of their annual covered salary. The School is required to contribute an actuarially determined rate determined annually for PERF and TRF. The School's expense for the years ended June 30, 2019 and 2018 were $58,562 and $47,006, respectively.

NOTE 8 - FUNCTIONAL EXPENSES BY NATURE

The statements of activities report certain categories of expenses attributable to the program and supporting functions of the School. Functions include program expense for education services and management and general activities. The table below presents these functional expenses by their natural classification for the years ended June 30, 2019 and 2018, respectively.

	2019		
	Education Services	Management and General	Total
Salaries and benefits	$ 927,159	$ -	$ 927,159
Student support and supplies	142,463	-	142,463
Office and operation expense	85,680	-	85,680
Depreciation expense	129,085	-	129,085
Building and grounds	75,140	-	75,140
Service contracts	162,646	207,162	369,808
Total expenses	$ 1,522,173	$ 207,162	$ 1,729,335

(Continued)

NOTE 8 - FUNCTIONAL EXPENSES BY NATURE (Continued)

	2018		
	Education Services	Management and General	Total
Salaries and benefits	$ 815,755	$ -	$ 815,755
Student support and supplies	185,147	-	185,147
Office and operation expense	78,051	-	78,051
Depreciation expense	121,606	-	121,606
Building and grounds	70,598	-	70,598
Service contracts	201,624	185,281	386,905
Total expenses	$ 1,472,781	$ 185,281	$ 1,658,062

NOTE 9 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The School's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	$ 632,019	$ 351,016
Grants receivable	31,987	38,741
Due from related parties	1,171	47,214
Total financial assets	$ 665,177	$ 436,971

As part of the School's liquidity management, the School invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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

Indiana State Board of Accounts Compliance Report of Gary Middle College, Inc.

The above 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 addressing is *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools.*

INDIANA STATE BOARD OF ACCOUNTS
COMPLIANCE REPORT OF
GARY MIDDLE COLLEGE, INC.

LAKE COUNTY, INDIANA
July 1, 2018 to June 30, 2019

GARY MIDDLE COLLEGE, INC.

LAKE COUNTY, INDIANA
July 1, 2018 to June 30, 2019

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GARY MIDDLE COLLEGE, INC.
SCHOOL OFFICIALS

Office	Official	Term
Lead Principal	Joseph Arredondo	July 1, 2018 to June 30, 2019
Treasurer	Dana Johnson Teasley	July 1, 2018 to June 30, 2019
President of the Charter Board	Arlene Colvin	July 1, 2018 to June 30, 2019

Crowe

Crowe LLP
Independent Member Crowe Global

TRANSMITTAL LETTER

Board of Directors and Management
Gary Middle College
Indianapolis, Indiana

We have audited the financial statements of Gary Middle College, Inc. (the "School") for the period from July 1, 2018 to June 30, 2019, and have issued our report thereon dated January 13, 2020. As part of our audit, we performed certain tests of the School's compliance with provisions of the Accounting and Uniform Compliance Guidelines Manual ("Manual") for the audits of Indiana Charter Schools issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions. However, providing an opinion on compliance with the Manual was not an objective of our tests, and accordingly, we do not express such an opinion.

The School's response to the finding identified in our report is described in the accompanying pages. The School's response was not subjected to the procedures applied in the tests of the School's compliance with the Manual and, accordingly, we express no opinion on it.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
January 13, 2020

FINDING 2019-001: CONFLICT OF INTEREST STATEMENTS

Criteria: Part 13 of the Indiana Charter School Manual notes that conflict of interest statements should be filed and provided to State Board of Accounts.

Condition: During our review of conflict of interest statements, we noted two board members did not complete the conflict of interest form for the year under review.

Recommendation: We recommend all board members complete their conflict of interest statements in a timely manner.

Management Response: Management agrees with finding. Management communicates the requirement to board members frequently and will continue to work with all board members to ensure conflict of interest forms are completed in a timely manner.

The contents of this report were discussed on December 13, 2019 with Dana Johnson Teasley, Treasurer. The Official Response has been made a part of this report and may be found immediately following the findings on the previous page.

MONTESSORI ACADEMY AT GEIST, INC.
AND GMA HOLDING, LLC

CONSOLIDATED FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan
CPAs

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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Montessori Academy at Geist, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Montessori Academy at Geist, Inc. and GMA Holding, LLC which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montessori Academy at Geist, Inc. and GMA Holding, LLC as of June 30, 2019 and 2018, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules of financial position on pages 13 and 14 and the consolidating schedules of activities and change in net assets on pages 15 and 16 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

DONOVAN

Donovan

Indianapolis, Indiana
January 30, 2020

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 403,725	$ 2,426,624
Accounts receivable		
Grants	24,000	-
Other	19,419	11,457
Due from affiliated entity	-	5,103
Prepaid expenses	12,000	38,126
Total current assets	459,144	2,481,310
PROPERTY AND EQUIPMENT		
Land	546,248	546,248
Construction in progress	2,659,465	80,626
Leasehold improvements	184,893	184,893
Furniture and equipment	293,031	293,031
Textbooks	26,602	11,172
Less: accumulated depreciation	(380,132)	(358,410)
Property and equipment, net	3,330,107	757,560
OTHER ASSETS		
Security deposit	11,000	11,000
TOTAL ASSETS	$ 3,800,251	$ 3,249,870
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 218,137	$ 218,137
Accounts payable and accrued expenses	102,500	111,916
Construction costs payable	511,121	-
Deferred revenue	54,965	49,845
Refundable advances	-	10,375
Due to affiliated entity	845	-
Total current liabilities	887,568	390,273
LONG-TERM LIABILITIES		
Notes payable, net of current portion	1,417,889	1,636,026
Less: unamortized debt issuance costs	(83,257)	-
Total long-term liabilities, net of unamortized debt issuance costs	1,334,632	1,636,026
Total liabilities	2,222,200	2,026,299
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,578,051	1,223,571
TOTAL LIABILITIES AND NET ASSETS	$ 3,800,251	$ 3,249,870

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

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 2,431,022	$ 2,325,654
Grant revenue	335,998	327,911
Student fees	95,170	79,370
Investment income	16,519	12,093
Other income	92,257	68,938
Total revenue and support	2,970,966	2,813,966
EXPENSES		
Program services	2,060,964	2,067,327
Management and general	555,522	477,642
Total expenses	2,616,486	2,544,969
CHANGE IN NET ASSETS	354,480	268,997
NET ASSETS, BEGINNING OF YEAR	1,223,571	954,574
NET ASSETS, END OF YEAR	$ 1,578,051	$ 1,223,571

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

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 1,181,980	$ 331,518	$ 1,513,498	$ 1,134,377	$ 289,106	$ 1,423,483
Employee benefits	151,116	61,530	212,646	178,504	54,505	233,009
Professional services	140,350	31,388	171,738	171,340	22,473	193,813
Authorizer oversight fees	-	65,769	65,769	-	58,909	58,909
Staff development and recruitment	2,329	-	2,329	15,071	-	15,071
Food costs	2,719	-	2,719	2,687	-	2,687
Property rental and equipment	17,395	-	17,395	23,895	-	23,895
Classroom, kitchen, and office supplies	64,412	-	64,412	83,264	156	83,420
Occupancy	453,101	-	453,101	414,856	-	414,856
Depreciation	21,722	-	21,722	23,186	-	23,186
Insurance	-	36,376	36,376	-	20,208	20,208
Interest	-	15,814	15,814	-	19,087	19,087
Repairs and maintenance	10,455	-	10,455	2,972	-	2,972
Other	15,385	13,127	28,512	17,175	13,198	30,373
Total functional expenses	$ 2,060,964	$ 555,522	$ 2,616,486	$ 2,067,327	$ 477,642	$ 2,544,969

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 354,480	$ 268,997
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,722	23,186
Change in certain assets and liabilities:		
Grants receivable	(24,000)	-
Other receivable	(7,962)	(2,398)
Due from/to affiliated entity	5,948	62,104
Prepaid expenses	26,126	-
Accounts payable and accrued expenses	(9,416)	26,632
Deferred revenue	5,120	9,217
Refundable advances	(10,375)	(6,791)
Net cash provided by operating activities	361,643	380,947
INVESTING ACTIVITIES		
Construction in progress payments	(2,058,467)	(74,526)
Purchases of property and equipment	(15,430)	-
Net cash used in investing activities	(2,073,897)	(74,526)
FINANCING ACTIVITIES		
Principal payments on note payable	(218,137)	(218,137)
Debt issuance costs	(92,508)	-
Net cash used in financing activities	(310,645)	(218,137)
NET CHANGE IN CASH	(2,022,899)	88,284
CASH, BEGINNING OF YEAR	2,426,624	2,338,340
CASH, END OF YEAR	$ 403,725	$ 2,426,624
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 16,905	$ 20,178
NON-CASH TRANSACTIONS		
Construction in progress in payables	511,121	-
Amortization of debt issuance costs in construction in progress	9,251	-

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Montessori Academy at Geist, Inc. ("GMA") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. GMA operates a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. During the 2018-2019 school year, GMA served approximately 375 students in grades kindergarten to eight by providing an alternative to the traditional public schools.

Effective December 26, 2018, GMA formed GMA Holding, LLC, a wholly-owned subsidiary of the School. GMA Holding, LLC was established to own land and construct a school building for use by the School. During the year ended June 30, 2019, GMA Holding, LLC began construction of the new school facility. As of June 30, 2019, construction in progress totaled $2,659,465. Total project cost, including land, is expected to be approximately $7,000,000. The School moved into the building in November and December 2019.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Montessori Academy at Geist, Inc. and GMA Holding LLC, collectively referred to as the "School." All significant intercompany transactions and balances have been eliminated in consolidation.

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 and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

Accounting Estimates – The preparation of consolidated 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 generally 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.

Student fees are recognized in the academic school year to which the payments pertain.

A 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investment with original maturities of three months or less. There were no cash equivalents at June 30, 2019 and 2018.

Grants Receivable – Grants receivable relate to activities funded under federal grants 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.

Other Accounts Receivable – Other accounts receivable relate to student fees. The School believes that all amounts are collectible, thus an allowance for doubtful accounts is not deemed necessary.

Due from Affiliated Entity – The School pays expenses and salaries for the Geist Montessori Pre-Kindergarten ("Pre-K") program, which is a separate entity from the School. Several times during the year, Pre-K pays the School the balance of the account. In addition, Pre-K's annual net revenues in excess of expenses is contributed to the School and reported in other income ($60,000 and $55,000 for 2019 and 2018, respectively). As of June 30, 2019, the School owes Pre-K $845 and as of June 30, 2018 Pre-K owes the School $5,103.

Debt Issuance Costs – During January 2019, GMA Holding, LLC entered into a construction loan agreement with First Financial Bank, with maximum borrowings of $4,500,000. Total costs incurred to secure the financing were $92,508. Amortization is provided on a straight-line basis over the term of the agreement (60 months). Accumulated amortization as of June 30, 2019 was $9,251 and is included in construction in progress during the construction phase and interest expense thereafter. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

Taxes on Income – Montessori Academy at Geist, Inc. 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. GMA Holding, LLC is in the process of applying for the provision of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization. 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 consolidated 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 ending after 2015 are open to audit for both federal and state purposes.

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 are included in the accounts at cost. Routine maintenance and repairs, and minor replacement costs 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	9 to 12 years
Furniture and equipment	3 to 5 years
Textbooks	3 years

Deferred Revenue – Deferred revenue consists of student fee deposits received as part of the enrollment process that apply to the subsequent academic school year.

Subsequent Events – The School evaluated subsequent events through January 30, 2020, the date these consolidated financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the consolidated financial statements or related disclosures would be required.

NOTE 2 - NOTES PAYABLE

The note payable consisted of the following at June 30:

	2019	2018
Note payable to State Board of Education, payable $109,068 semi-annually (January 1 and July 1) plus interest at 1.00% per annum.	$ 1,636,026	$ 1,854,163
Less: current portion	(218,137)	(218,137)
Long-term portion	$ 1,417,889	$ 1,636,026

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.

As discussed in Note 1, during January 2019, GMA Holding, LLC entered into an agreement with First Financial Bank for a construction loan of $4,500,000. Borrowings accrue interest at 2.00% above LIBOR (a total of 4.44% at June 30, 2019). The School did not take any draws until subsequent to the year ended June 30, 2019. On February 1, 2020, the construction loan converts to a 48-month term note, using a 240-month amortization period.

NOTE 2 - NOTES PAYABLE, Continued

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

2020	$	218,137
2021		218,137
2022		218,137
2023		218,137
2024		218,137
Thereafter		545,341
	$	1,636,026

NOTE 3 - REFUNDABLE ADVANCES

The School has been awarded grants to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2018, the School had refundable grant advances in excess of expenditures of $10,375.

NOTE 4 - LEASES

The School leases its education facilities and certain items of office equipment under operating leases for terms from three to seven years. The facility leases include options to renew and provisions for rate escalation based on the Consumer Price Index. Under one facility lease, the School is responsible for insurance, taxes, repairs and utilities. Another facility lease provides for early termination by the School subject to a buyout provision. Due to the completion of the new school facility, both of the facility lease agreements were terminated in December 2019. The School paid a buyout fee of $68,442. Expense under operating leases for the years ended June 30, 2019 and 2018 were $416,998 and $381,972, respectively.

Future minimum lease obligations under noncancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

2020	$	189,964
2021		13,996
2022		13,996
2023		13,996
2024		13,996
Thereafter		4,665

NOTE 5 - RETIREMENT PLAN

Retirement benefits for School employees are provided under a Section 403(b) defined contribution retirement plan. Under the plan, the School matches 100% of each participant's contributions not to exceed 7% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the Board of Directors. No discretionary contributions were made in 2019 and 2018. Retirement plan expense for the years ended June 30, 2019 and 2018 was $31,671 and $34,455, respectively.

NOTE 6 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $65,769 and $58,909 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Hancock 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. Cash deposits are maintained at First Financial Bank and are insured up to the FDIC insurance limit.

NOTE 8 - 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 consolidated statement of financial position. At June 30, 2019, the School's financial assets, consisting of cash and accounts receivable, total $447,144, all of which are available to meet cash needs for general expenditures within one year.

NOTE 8 - 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 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the consolidated 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.

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2019

	GMA	GMA Holding	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash	$ 397,735	$ 5,990	$ -	$ 403,725
Accounts receivable:				
Grants	24,000	-	-	24,000
Other	19,419	-	-	19,419
Due from affiliated entity	2,785,934	-	(2,785,934)	-
Prepaid expenses	12,000	-	-	12,000
Total current assets	3,239,088	5,990	(2,785,934)	459,144
PROPERTY AND EQUIPMENT				
Land	-	546,248	-	546,248
Construction in progress	-	2,659,465	-	2,659,465
Leasehold improvements	184,893	-	-	184,893
Furniture and equipment	293,031	-	-	293,031
Textbooks	26,602	-	-	26,602
Less: accumulated depreciation	(380,132)	-	-	(380,132)
Property and equipment, net	124,394	3,205,713	-	3,330,107
OTHER ASSETS				
Security deposit	11,000	-	-	11,000
TOTAL ASSETS	$ 3,374,482	$ 3,211,703	$ (2,785,934)	$ 3,800,251
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of notes payable	$ 218,137	$ -	$ -	$ 218,137
Accounts payable and accrued expenses	102,500	-	-	102,500
Construction costs payable	-	511,121	-	511,121
Deferred revenue	54,965	-	-	54,965
Due to affiliated entity	845	2,785,934	(2,785,934)	845
Total current liabilities	376,447	3,297,055	(2,785,934)	887,568
LONG-TERM LIABILITIES				
Notes payable, net of current portion	1,417,889	-	-	1,417,889
Less: unamortized debt issuance costs	-	(83,257)	-	(83,257)
Total long-term liabilities, net of unamortized debt issuance costs	1,417,889	(83,257)	-	1,334,632
Total liabilities	1,794,336	3,213,798	(2,785,934)	2,222,200
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,580,146	(2,095)	-	1,578,051
TOTAL LIABILITIES AND NET ASSETS	$ 3,374,482	$ 3,211,703	$ (2,785,934)	$ 3,800,251

See independent auditors' report

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2018

	GMA	GMA Holding	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash	$ 2,426,624	$ -	$ -	$ 2,426,624
Accounts receivable	11,457	-	-	11,457
Due from affiliated entity	5,103	-	-	5,103
Prepaid expenses	38,126	-	-	38,126
Total current assets	2,481,310	-	-	2,481,310
PROPERTY AND EQUIPMENT				
Land	546,248	-	-	546,248
Construction in progress	80,626	-	-	80,626
Leasehold improvements	184,893	-	-	184,893
Furniture and equipment	293,031	-	-	293,031
Textbooks	11,172	-	-	11,172
Less: accumulated depreciation	(358,410)	-	-	(358,410)
Property and equipment, net	757,560	-	-	757,560
OTHER ASSETS				
Security deposit	11,000	-	-	11,000
TOTAL ASSETS	$ 3,249,870	$ -	$ -	$ 3,249,870
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of note payable	$ 218,137	$ -	$ -	$ 218,137
Accounts payable and accrued expenses	111,916	-	-	111,916
Deferred revenue	49,845	-	-	49,845
Refundable advances	10,375	-	-	10,375
Total current liabilities	390,273	-	-	390,273
NOTE PAYABLE, NET OF CURRENT PORTION	1,636,026	-	-	1,636,026
Total liabilities	2,026,299	-	-	2,026,299
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,223,571	-	-	1,223,571
TOTAL LIABILITIES AND NET ASSETS	$ 3,249,870	$ -	$ -	$ 3,249,870

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2019

	GMA	GMA Holding	Eliminations	Total
REVENUE AND SUPPORT				
State education support	$ 2,431,022	$ -	$ -	$ 2,431,022
Grant revenue	335,998	-	-	335,998
Student fees	95,170	-	-	95,170
Investment income	16,519	-	-	16,519
Other income	92,257	-	-	92,257
Total revenue and support	2,970,966	-	-	2,970,966
EXPENSES				
Program services	2,060,964	-	-	2,060,964
Management and general	553,427	2,095	-	555,522
Total expenses	2,614,391	2,095	-	2,616,486
CHANGE IN NET ASSETS	356,575	(2,095)	-	354,480
NET ASSETS, BEGINNING OF YEAR	1,223,571	-	-	1,223,571
NET ASSETS (DEFICIT), END OF YEAR	$ 1,580,146	$ (2,095)	$ -	$ 1,578,051

MONTESSORI ACADEMY AT GEIST, INC. AND GMA HOLDING, LLC
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2018

	GMA	GMA Holding	Eliminations	Total
REVENUE AND SUPPORT				
State education support	$ 2,325,654	$ -	$ -	$ 2,325,654
Grant revenue	327,911	-	-	327,911
Student fees	79,370	-	-	79,370
Investment income	12,093	-	-	12,093
Other income	68,938	-	-	68,938
Total revenue and support	2,813,966	-	-	2,813,966
EXPENSES				
Program services	2,067,327	-	-	2,067,327
Management and general	477,642	-	-	477,642
Total expenses	2,544,969	-	-	2,544,969
CHANGE IN NET ASSETS	268,997	-	-	268,997
NET ASSETS, BEGINNING OF YEAR	954,574	-	-	954,574
NET ASSETS, END OF YEAR	$ 1,223,571	$ -	$ -	$ 1,223,571

MONTESSORI ACADEMY AT GEIST, 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 Montessori Academy at Geist, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

MONTESSORI ACADEMY AT GEIST, INC.

HANCOCK COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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MONTESSORI ACADEMY AT GEIST, INC.
HANCOCK COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Board President	Kirby Durham	07/01/18 – 06/30/19
Executive Director	Dr. Susan Fries	07/01/18 – 06/30/19
Controller	Karinda Holland	07/01/18 – 06/30/19

Donovan CPAs

The Board of Directors
Montessori Academy at Geist, Inc.

We have audited the consolidated financial statements of Montessori Academy at Geist, Inc. and GMA Holding, LLC (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated January 30, 2020. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

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Indianapolis, Indiana
January 30, 2020

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MONTESSORI ACADEMY AT GEIST, INC.
HANCOCK COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

RECORD RETENTION

We were unable to conduct testing related to compliance with the provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts due to the lack of records and documentation of business and financial transactions. The School experienced a complete change in management and all administration personnel directly following the fiscal year end. Adequate provisions were not made to retain school records in a satisfactory manner for retrieval, specifically:

1. Student counts
2. Attendance data
3. Physical asset inventories
4. Accounts payable vouchers and check copies related to credit card statements
5. Income verification report
6. Textbook claims

Charter school administrators must be cognizant of their duties of care, loyalty, and obedience. The duty of care requires administrators to be familiar with charter school's finances and activities and to participate regularly in its operations. Duty of loyalty requires that any conflict of interest, real or possible, always be disclosed in advance of being employed and when they arise. A charter school has the duty to ensure that the school complies with applicable laws and regulations and its internal policies and procedures. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

FORM USAGE

The School did not use the SBOA prescribed form, nor any other equivalent form of accounts payable vouchers during the 2018-2019 school year.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

REQUIRED REPORTS

We reviewed the Form 9s that were submitted for the periods of July to December 2018 and January to June 2019. Although ending cash balances agreed to the trial balance, fund 200 was overdrawn.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which shall be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

MONTHLY RECONCILIATIONS

The School's consolidated related real estate holdings entity, GMA Holding, LLC, was opened in December 2018. At the time of the audit, this entity's cash account had not been reconciled since March 2019.

All financial records must be kept up-to-date and reconciled monthly. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

VENDOR DISBURSEMENTS

We selected a sample of twenty-six cash disbursements for testing. The School was unable to provide a voucher, invoice, or check copy for five of the twenty-six items selected. Additionally, accounts payable vouchers were not used as noted in the Form Usage section above.

The Accounts Payable Voucher (Form 523)…must be used in accordance with the following conditions: Charter schools may not draw a warrant or check for payment of a claim unless: (1) there is a fully itemized invoice or bill for the claim; (2) the invoice or bill is approved by the officer or person receiving the goods and services; (3) the invoice or bill is filed with the fiscal officer; (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and (5) payment of the claim is allowed by the board having jurisdiction over the allowance of the payment of the claim. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 2)

PAYROLL POLICIES AND PROCEDURES

Fifteen employees were selected for testing. Of the fifteen employees selected, nine were found to not have any type of written employment agreement or contract. As such, we were unable to determine if they were being paid their correct rates. Additionally, timecards were not utilized for hourly employees. Also, one employee's wages did not agree to the employment contract.

The charter school shall maintain adequate supporting documentation for payroll to ensure that payments are made only for services rendered. Supporting documentation, such as timecards, must show signs of supervisory approval. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

All compensation and benefits paid to employees must be included in the labor contract or salary schedule unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

ELIGIBILITY DETERMINATION

We selected five students for testing. One student was incorrectly determined as "reduced" when the student should have been determined as "free."

The department shall adopt procedures that must be followed by applicants in order for them to qualify for assistance under this chapter. These procedures must include obtaining information needed by the family and social services administration to determine if the recipient is a child who is a member of a qualifying family (as defined in IC 12-14-28-1), including the familial relationship of the child to the head of the household. The financial eligibility standard for an applicant under this chapter must be the same criteria used for determining eligibility for receiving free or reduced lunches under the national school lunch program. [Indiana Code 20-33-5-2 (Procedures to qualify for assistance)].

MONTESSORI ACADEMY AT GEIST, INC.
HANCOCK COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on January 29, 2020 with Nick Wright (Board President), Uriah Ellis (Board Treasurer), Kirby Durham (Board Member), Cindy Schuler (Executive Director), Logan Bonar (Assistant Executive Director), and Jack Colwell (Controller). The Official Response has been made a part of this report and may be found on pages 7 and 8.

GEIST
MONTESSORI ACADEMY
A Public Charter School

January 30, 2020

Geist Montessori Academy
6058 W 900 N
McCordsville, IN 46055

Resolutions and Corrective Actions:

1. Record Retention:
   - Student counts and attendance data: GMA has used a student information system that has not allowed production of past report data. Once data is changed, it cannot be retrieved from any time in the past. Backups overwrite existing data and are effectively useless for pulling historic data. If student count and attendance data was printed at the time of the ADM reports, it could not be located during the audit. In December 2019 GMA purchased PowerSchool and is in the process of migrating to that student information system. This will correct ADM and attendance reporting issues from the past. February 3, 2020's ADM count will be well documented.
   - Physical asset inventory: GMA's fixed asset list has historically been maintained by GMA's accounting (auditing) firm. GMA will complete a current inventory of all fixed assets and maintain that as advised by our accountants and financial advisors to comply with SBOA guidelines.
2. Form Usage:
   - AP vouchers and check copies related to credit card statements: GMA will begin using approved AP vouchers as prescribed by the SBOA guidelines for charter schools. Copies of checks and supporting documentation for credit card statements will be maintained in a manner sufficient to satisfy SBOA requirements. This documentation process has already been corrected.
3. Required Reports:
   - Income verification reports: Specifically referenced in the audit findings is that the Debt Service Fund, Fund 200, was overdrawn (although total cash balanced). An outside firm files the school's Form 9, and because of the turnover in the controller position, GMA was not aware of the situation until it was discovered in the audit. GMA is now aware and will consult with our Form 9 filing firm to determine what happened, why, and how to prevent it in the future.
4. Monthly Reconcilements:
   - Monthly reconciliations: GMA uses QuickBooks to document financial transactions. While the main set of books for GMA, Inc. were up to date and reconciled, the newly created GMA Holding, LLC account had not been reconciled since March of 2019. This was corrected before the completion of the audit.
5. Vendor disbursements:
   - The lack of an effective filing system for paper documents resulted in the inability to fulfil this audit request. The missing checks and invoices had obviously been removed at some time and not refiled properly. This has already been corrected. All check stub and matching invoices are maintained digitally at this time. Paper check stubs are also retained and filed.

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Logan Bonar, Assistant Executive Director, lbonar@gma.k12.in.us 6058 W 900 N
Jack Colwell, Controller, jcolwell@gma.k12.in.us McCordsville, IN 46055
Phone: 317-813-4626 Fax: 317-813-4665

6. Payroll policies and procedures:
    - Historically, GMA has only maintained written employment contracts for salaried employees. The finding for missing employment contracts related primarily to hourly employees. GMA will correct this by preparing some type of contract for hourly employees to document that compensation is received as agreed. Timecards (paper timesheets) have been maintained since the school opened. However, the selected date for testing by the auditors could not be located as a result of the lack of an appropriate filing system. Initially, GMA will begin retaining these timesheets digitally (conversion to pdf) and in paper for easy retrieval. GMA is also exploring the use of an employee timekeeping system offered through payroll processing vendors.
7. Eligibility determination:
    - One student was incorrectly identified as reduced when they should have been free. GMA will identify the criteria and formulas required to determine the proper eligibility for applicants and corresponding appropriate textbook reimbursement claim.

GMA's school board and new executive and administrative staff are committed to following all standards prescribed by governing authorities including the SBOA. While various findings were highlighted during this audit, corrective measures were already underway by the board and continue at this time. GMA is on a path of growth and refinement, with new personnel, a new facility, and a fresh excitement about the Montessori charter opportunity.

HOOSIER ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan
CPAs

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Independent Auditors' Report

The Board of Directors
Hoosier Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Hoosier Academy, 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 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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Basis for Qualified Opinion

As presented in Note 2 to the financial statements, in 2013, the Indiana Legislature passed amendments to the Indiana Charter Schools Act that resulted in the suspension of funding in the amount of $4,996,296. Hoosier Academy, Inc. believes this was not the intent of the legislation and has appealed this result with the state government for the unremitted funding shortfall with the expectation that it will ultimately be successful in restoring the unremitted income, and has reflected this income as a receivable in its full amount of $4,996,296 on its statements of financial position as of June 30, 2019 and 2018. Accounting principles generally accepted in the United States of America require a potential gain that is contingent upon a future event be recognized when the amount is realized. If Hoosier Academy, Inc. were to recognize this gain contingency when realized, a write down of receivables in the amount of $4,996,296 would be required as of June 30, 2019 and 2018. Accordingly, net assets without donor restrictions as of June 30, 2019 and 2018 would be reduced by this amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Hoosier Academy, Inc. as of June 30, 2019 and 2018 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of financial position by school on pages 13 and 14 and the schedules of activities and change in net assets by school on pages 15 and 16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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Donovan

Indianapolis, Indiana
December 16, 2019

HOOSIER ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 861,137	$ 1,672,325
Accounts receivable:		
State education support	4,996,296	4,996,296
Grants	277,576	360,453
K12 Classroom, LLC	-	11,383
Prepaid expenses	51,562	48,298
Total current assets	6,186,571	7,088,755
PROPERTY AND EQUIPMENT		
Leasehold improvements	777,312	777,312
Furniture and equipment	1,363,994	1,363,994
Less: accumulated depreciation	(1,903,779)	(1,786,312)
Property and equipment, net	237,527	354,994
TOTAL ASSETS	$ 6,424,098	$ 7,443,749
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses:		
K-12 Classroom, LLC	$ 5,608,037	$ 5,743,374
Other	790,427	1,675,561
Refundable advance	25,634	24,814
Total current liabilities	6,424,098	7,443,749
NET ASSETS WITHOUT DONOR RESTRICTIONS	-	-
TOTAL LIABILITIES AND NET ASSETS	$ 6,424,098	$ 7,443,749

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

HOOSIER ACADEMY, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 6,490,952	$ 16,996,753
Grant revenue	963,197	2,200,185
Interest income	882	2,141
Other	53,937	222,541
Total revenue and support	7,508,968	19,421,620
EXPENSES		
Program services	6,689,619	16,545,587
Management and general	819,349	2,876,033
Total expenses	7,508,968	19,421,620
CHANGE IN NET ASSETS	-	-
NET ASSETS, BEGINNING OF YEAR	-	-
NET ASSETS, END OF YEAR	$ -	$ -

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

HOOSIER ACADEMY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 3,182,890	$ 55,862	$ 3,238,752	$ 6,202,380	$ 566,257	$ 6,768,637
Employee benefits	672,603	8,704	681,307	1,321,920	102,216	1,424,136
Staff development and recruitment	59,966	-	59,966	367,388	-	367,388
Professional services	318,133	427,726	745,859	1,140,425	776,225	1,916,650
Management services	-	41,481	41,481	-	603,373	603,373
Food costs	25,199	-	25,199	14,926	-	14,926
Authorizer oversight fee	-	146,897	146,897	-	416,209	416,209
Equipment rental and maintenance	798,478	940	799,418	1,526,664	-	1,526,664
Classroom and office supplies and fees	1,079,804	19,638	1,099,442	5,300,611	49,897	5,350,508
Occupancy	403,563	-	403,563	425,385	-	425,385
Depreciation	117,467	-	117,467	120,332	-	120,332
Other	31,516	118,101	149,617	125,556	361,856	487,412
Total functional expenses	$ 6,689,619	$ 819,349	$ 7,508,968	$ 16,545,587	$ 2,876,033	$ 19,421,620

HOOSIER ACADEMY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ -	$ -
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	117,467	120,332
Changes in certain assets and liabilities:		
Accounts receivable	94,260	4,158
Prepaid expenses	(3,264)	266
Accounts payable and accrued expenses	(1,020,471)	197,745
Refundable advance	820	(12,610)
Net cash provided by (used in) operating activities	(811,188)	309,891
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(18,709)
NET CHANGE IN CASH	(811,188)	291,182
CASH, BEGINNING OF YEAR	1,672,325	1,381,143
CASH, END OF YEAR	$ 861,137	$ 1,672,325

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Hoosier Academy, Inc. ("Hoosier Academy") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, and is the organizer and governing body of two charter schools located in Indianapolis, Indiana:

- *Hoosier Academies Indianapolis* is a blended learning program serving students in grades K-12.
- *Insight School of Indiana* is a fully virtual or online program serving students in grades 7-12 who have struggled in their education.

Enrollment during the 2018-2019 school year ranged between approximately 860 and 995 students in total for the two schools. Each of the schools is a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. *Hoosier Academies Virtual School*, a third charter school organized and governed by Hoosier Academy, Inc., ceased operations as a charter school effective June 30, 2018.

Financial Statement Presentation – Effective with the June 30, 2019 year end, Hoosier Academy 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 assets 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 generally come from resources provided under the Indiana Charter Schools Act. Under the Act, Hoosier Academy receives an amount per student similar to the funding received by other public schools in Indiana. 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 portion of Hoosier Academy's revenue is the product of cost reimbursement grants. Accordingly, Hoosier Academy recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

Accounts Receivable – Accounts receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. Hoosier Academy believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary. See Note 2 for additional information.

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 are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 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	12 to 15 years
Furniture and equipment	2 to 5 years

Refundable Advances – Hoosier Academy receives grants to provide educational instruction that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2019 and 2018, Hoosier Academy had refundable grant advances in excess of expenditures of $25,634 and $24,814, respectively.

Taxes on Income – Hoosier Academy, Inc. 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 organization 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 Hoosier Academy 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. Hoosier Academy has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ended after 2015 are open to audit for both federal and state purposes.

Subsequent Events – Hoosier Academy evaluated subsequent events through December 16, 2019, the date these financial statements were available to be issued. Events and transactions occurring through that date have been evaluated to determine whether recognition or disclosure in the financial statements would be required.

NOTE 2 - ACCOUNTS RECEIVABLE

Hoosier Academy's accounts receivable balance consists primarily of amounts due from the State of Indiana for the operating periods in which State funding has not been received. As of June 30, 2013, the State forgave the remaining balance of the School's operating loan made through the Common School Fund. As the loan was provided to finance Hoosier Academy's operations when revenue was not received, Hoosier Academy has established an allowance against the accounts receivable balance in the amount forgiven.

NOTE 2 - ACCOUNTS RECEIVABLE, Continued

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2019 and 2018:

Tuition support	$	8,993,977
Special education grant		1,190,101
Prime time grant		10,804
Honors grant		1,350
		10,196,232
Less: allowance for Common School loan forgiveness		(5,199,936)
	$	4,996,296

Hoosier Academy's accounts receivable balance for education support consists of amounts due from the State of Indiana for tuition support relating to (a) the first six months of Hoosier Academy's initial school year and (b) enrollment growth occurring in subsequent school years.

Pursuant to IC §20-49-7, the State Board of Education was authorized to advance funds to charter schools via the State's Common School Fund thereby allowing charter schools to finance operations for periods when adequate tuition support was not received. These cash advances were made to charter schools through executed loan agreements with repayment terms that were defined in the statute.

In April 2013, the Indiana General Assembly repealed IC §20-49-7 with the passing of House Bill 1001 and established an appropriation to forgive charter schools for cash advances previously made through the Common School Fund. Hoosier Academy applied for and was forgiven from repaying the balance of its indebtedness plus accrued interest of $5,199,936 as of June 30, 2013. The receivable for education support has been reduced by the amount of the loan forgiven.

Members of the Indiana General Assembly and the executive branch have been informed that a number of charter schools remain with an accounts receivable balance and those charter schools believe that the State remains obligated for amounts not reimbursed through the provisions of House Bill 1001. Legislative and administrative efforts are being made to resolve any outstanding obligations of the State.

NOTE 3 - LEASES

Hoosier Academy leases its school facility under an operating lease. The lease provides for monthly lease payments through August 2022. Hoosier Academy also leases certain items of office equipment under an operating lease, which provides for monthly payments through August 2020. Rent expense for the years ended June 30, 2019 and 2018 under these operating leases was $403,563 and $425,385, respectively. The expense for the year ended June 30, 2018 was reduced by $79,639 due to the deficit credits received by K12 Classroom, LLC (Note 4).

NOTE 3 - LEASES, Continued

Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

2020	$	203,504
2021		196,584
2022		32,467

NOTE 4 - COMMITMENTS

Hoosier Academy operates its schools under charters granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charters, Hoosier Academy has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Payments under the charter agreements were $146,897 and $416,209 for the years ended June 30, 2019 and 2018, respectively. The charters remain in effect for Hoosier Academies Indianapolis and Insight School of Indiana until June 30, 2021 and June 30, 2020, respectively, and are renewable thereafter by mutual consent.

Hoosier Academy has contracted with K12 Classroom, LLC to provide administrative and technology services. Under the terms of the agreement, Hoosier Academy has agreed to pay an amount equal to 22% of revenues, as defined, for such services. Such fees for the years ended June 30, 2019 and 2018 were $1,623,237 and $4,219,541, respectively. Hoosier Academy also purchases certain other curriculum materials and supplies for which it is billed as goods and services are received. Such purchases aggregated $3,710,130 and $7,120,746 for the years ended June 30, 2019 and 2018, respectively. This agreement remains in effect until June 30, 2021.

K12 Classroom, LLC has agreed to issue credits against the amounts billed for services and products provided, if needed, to ensure that Hoosier Academy does not end a fiscal year with a financial deficit.

For the years ended June 30, 2019 and 2018, service fees were reduced as follows:

		Administrative and Technology Fees		Other Service Fees
Year Ended June 30, 2019				
Charges per contract	$	1,623,237	$	3,710,130
Credit issued by K12 Classroom LLC		(1,623,237)		(1,926,840)
Net charges	$	-	$	1,783,290
Year Ended June 30, 2018				
Charges per contract	$	4,219,541	$	7,120,746
Credit issued by K12 Classroom LLC		(3,332,761)		(559,942)
Net charges	$	886,780	$	6,560,804

NOTE 4 - COMMITMENTS, Continued

The deficit credits provided by K12 Classroom, LLC are subject to repayment if Hoosier Academy experiences a surplus in subsequent fiscal years. The amount of the repayment is based on a percentage of the surplus experienced during such fiscal year ranging from 25% to 75% dependent upon the amount of the surplus. Any unpaid credits remaining upon termination of the agreement are not subject to repayment. Hoosier Academy is not able to estimate the amount of the repayment, if any, expected to be made in future years.

NOTE 5 - RETIREMENT PLANS

Hoosier Academy 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. For the years ended June 30, 2019 and 2018, Hoosier Academy contributed 7.5% of compensation for eligible teaching personnel to TRF. Should Hoosier Academy elect to withdraw from TRF, it could be subject to a withdrawal fee. Hoosier Academy's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2018 (the latest year reported), TRF was approximately 80% funded.

In lieu of TRF, employees can opt to participate in a Section 403(b) plan sponsored by Hoosier Academy. Under this plan, Hoosier Academy contributes 7.5% of compensation, as defined. Additional contributions may be made at the discretion of the Board of Directors. No discretionary contributions were made in 2019 or 2018. Retirement plan expense under both plans was $224,359 and $435,686 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - RISKS AND UNCERTAINTIES

Hoosier Academy provides educational instruction services to families residing in Marion and surrounding counties in Indiana, and to students throughout the State of Indiana through its virtual curriculum, 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 Hoosier Academy. Additionally, Hoosier Academy is subject to monitoring and audit by state and federal agencies. Those examinations could result in additional liability to be imposed.

Financial instruments that potentially subject Hoosier Academy to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits are maintained at PNC Bank and are insured up to the FDIC insurance limit.

NOTE 7 - LIQUIDITY

Under ASU 2016-14, Hoosier Academy 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 Hoosier Academy's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total $1,138,713, all of which are available to meet cash needs for general expenditures within one year. The state education support receivable has been excluded from financial assets as the date of payment, if any, cannot be determined.

From time to time, Hoosier Academy receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, Hoosier Academy 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 Hoosier Academy'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 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 assets. Management of Hoosier Academy 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.

HOOSIER ACADEMY, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2019

	Hoosier Academies Indianapolis	Hoosier Academies Virtual School	Insight School of Indiana	Eliminating Entries	Total
ASSETS					
CURRENT ASSETS					
Cash	$ 367,106	$ 117	$ 493,914	$ -	$ 861,137
Accounts receivable:					
State education support	163,940	4,832,356	-	-	4,996,296
Grants	100,423	-	177,153	-	277,576
Intercompany	-	-	328,991	(328,991)	-
Prepaid expenses	36,396	-	15,166	-	51,562
Total current assets	667,865	4,832,473	1,015,224	(328,991)	6,186,571
PROPERTY AND EQUIPMENT					
Leasehold improvements	777,312	-	-	-	777,312
Furniture and equipment	975,217	359,726	29,051	-	1,363,994
Less: accumulated depreciation	(1,521,811)	(356,600)	(25,368)	-	(1,903,779)
Property and equipment, net	230,718	3,126	3,683	-	237,527
TOTAL ASSETS	$ 898,583	$ 4,835,599	$ 1,018,907	$ (328,991)	$ 6,424,098
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses:					
K12 Classroom, LLC	$ 375,636	$ 4,773,957	$ 458,444	$ -	$ 5,608,037
Intercompany	328,991	-	-	(328,991)	-
Other	229,964	-	560,463	-	790,427
Refundable advance	20,950	4,684	-	-	25,634
Total current liabilities	955,541	4,778,641	1,018,907	(328,991)	6,424,098
NET ASSETS WITHOUT DONOR RESTRICTIONS	(56,958)	56,958	-	-	-
TOTAL LIABILITIES AND NET ASSETS	$ 898,583	$ 4,835,599	$ 1,018,907	$ (328,991)	$ 6,424,098

See independent auditors' report

HOOSIER ACADEMY, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2018

	Hoosier Academies Indianapolis	Hoosier Academies Virtual School	Insight School of Indiana	Eliminating Entries	Total
ASSETS					
CURRENT ASSETS					
Cash	$ 148,195	$ 1,150,570	$ 373,560	$ -	$ 1,672,325
Accounts receivable:					
State education support	163,940	4,832,356	-	-	4,996,296
Grants	23,471	280,758	56,224	-	360,453
K12 Classroom, LLC	5,734	-	5,649	-	11,383
Intercompany	-	215,244	-	(215,244)	-
Prepaid expenses	39,597	6,323	2,378	-	48,298
Total current assets	380,937	6,485,251	437,811	(215,244)	7,088,755
PROPERTY AND EQUIPMENT					
Leasehold improvements	777,312	-	-	-	777,312
Furniture and equipment	975,217	359,726	29,051	-	1,363,994
Less: accumulated depreciation	(1,422,636)	(347,991)	(15,685)	-	(1,786,312)
Property and equipment, net	329,893	11,735	13,366	-	354,994
TOTAL ASSETS	$ 710,830	$ 6,496,986	$ 451,177	$ (215,244)	$ 7,443,749
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses:					
K12 Classroom, LLC	$ 409,711	$ 5,298,785	$ 34,878	$ -	$ 5,743,374
Intercompany	64,968	-	150,276	(215,244)	-
Other	215,201	1,194,337	266,023	-	1,675,561
Refundable advance	20,950	3,864	-	-	24,814
Total current liabilities	710,830	6,496,986	451,177	(215,244)	7,443,749
NET ASSETS WITHOUT DONOR RESTRICTIONS	-	-	-	-	-
TOTAL LIABILITIES AND NET ASSETS	$ 710,830	$ 6,496,986	$ 451,177	$ (215,244)	$ 7,443,749

See independent auditors' report

HOOSIER ACADEMY, INC.

SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

For the Year Ended June 30, 2019

	Hoosier Academies Indianapolis	Hoosier Academies Virtual School	Insight School of Indiana	Total
REVENUE AND SUPPORT				
State education support	$ 1,245,566	$ -	$ 5,245,386	$ 6,490,952
Grant revenue	318,697	42,899	601,601	963,197
Interest income	-	882	-	882
Other	31,985	21,786	166	53,937
Total revenue and support	1,596,248	65,567	5,847,153	7,508,968
EXPENSES				
Program services	1,416,506	8,609	5,264,504	6,689,619
Management and general	236,700	-	582,649	819,349
Total expenses	1,653,206	8,609	5,847,153	7,508,968
CHANGE IN NET ASSETS	(56,958)	56,958	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-
NET ASSETS, END OF YEAR	$ (56,958)	$ 56,958	$ -	$ -

See independent auditors' report

HOOSIER ACADEMY, INC.

SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

For the Year Ended June 30, 2018

	Hoosier Academies Indianapolis	Hoosier Academies Virtual School	Insight School of Indiana	Eliminating Entries	Total
REVENUE AND SUPPORT					
State education support	$ 1,323,848	$ 10,746,521	$ 4,926,384	$ -	$ 16,996,753
Grant revenue	235,758	1,629,318	335,109	-	2,200,185
Interest income	282	1,859	-	-	2,141
Other	503,375	196,166	-	(477,000)	222,541
Total revenue and support	2,063,263	12,573,864	5,261,493	(477,000)	19,421,620
EXPENSES					
Program services	1,879,906	9,974,956	4,690,725	-	16,545,587
Management and general	183,357	2,598,908	570,768	(477,000)	2,876,033
Total expenses	2,063,263	12,573,864	5,261,493	(477,000)	19,421,620
CHANGE IN NET ASSETS	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-
NET ASSETS, END OF YEAR	$ -	$ -	$ -	$ -	$ -

HOOSIER ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2019

The reports presented herein were prepared in addition to another official report prepared for Hoosier Academy, Inc. as listed below:

Supplemental Audit Report of Hoosier Academy, 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*.

SUPPLEMENTAL AUDIT REPORT
OF
HOOSIER ACADEMY, INC.

MARION COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

TABLE OF CONTENTS

HOOSIER ACADEMY, INC.

MARION COUNTY, INDIANA

School Officials

July 1, 2018 to June 30, 2019

Office	Official	Term
Board President	John Marske	07/01/18 – 06/30/19
Head of School	Elizabeth Lamey	07/01/18 – 06/07/19
Head of School	Elizabeth Roth	06/08/19 – 06/30/19
Board Treasurer	Gary Meyer	07/01/18 – 06/30/19

The Board of Directors
Hoosier Academy, Inc.

We have audited the financial statements of Hoosier Academy, Inc. ("Hoosier Academy") as of and for the year ended June 30, 2019 and have issued our report thereon dated December 16, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 17, 2019

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HOOSIER ACADEMY, INC.
MARION COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

RECEIPTS AND DEPOSITS

We selected a sample of 25 receipts from Hoosier Academy's receipt books for testing. From our sample, we noted the following instances of non-compliance:

1. The School was unable to locate receipts for the period prior to November 2018.
2. The form of payment was not identified on 22 of the receipts.
3. Deposit support was not available for three receipts.
4. Receipts issued for prom tickets (15 in total) were written after the date of the deposit.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of payors. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

TEXTBOOK REIMBURSEMENT

We selected 25 students to test the determination of their eligibility for inclusion on the textbook reimbursement claim. Eligibility for textbook reimbursement uses the same criteria as free and reduced meals. From our testing, we noted the following instances of non-compliance:

1. Hoosier Academy could not provide applications for eight of the selected students.
2. Six of the applications did not have the determination of eligibility section completed by a school official.

The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. [7 CFR, part 245.6(c)]

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

HOOSIER ACADEMY, INC.
MARION COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

REQUIRED REPORTS

The fund balances shown on the Form 9 for Hoosier Academies Indianapolis at June 30, 2019 for the Title I grant did not accurately reflect the balances in those funds when compared to activity shown on the trial balance.

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

HOOSIER ACADEMY, INC.
MARION COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on December 17, 2019 with Enrico Rudolph (Finance Manager, K12, Inc.), Gary Meyer (Board Treasurer), Michelle Study-Campbell (Board President), Nadina McFann (School Board Liaison), and Dr. Janice Silver (Head of School). The Official Response has been made a part of this report and may be found on page 6.

Receipts and Deposits – Response

Management has been diligently working on making sure these items are not an issue for this Academic year's audit. Revisions have been made in the process of receipt creation using the guidance garnered from the auditors while they were on sight. All receipts and subsequent deposits are made in a timely fashion in accordance with the auditor's instructions. Care is being made to make sure payment type is identified and not assumed as our predecessors had. Deposit support will be available for all deposits. Prom receipts will be made when the income is received this school year, there will be no need for correcting previous errors.

Textbook Reimbursement - Response

The current administration has worked diligently to ensure that this school year's free and reduced lunch applications have been filled out entirely and are maintained electronically using forms prescribed or approved of by the State Board of Accounts.

Required Reports - Response

Management has taken action to correct the findings in the Title I balances matching the Form 9 during the current school year and will ensure the compliance with the SBOA regulations.

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INDIANA ONLINE LEARNING OPTIONS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan
CPAs

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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Indiana Online Learning Options, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Online Learning Options, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Basis for Qualified Opinion

As presented in Notes 2 and 3 to the financial statements, in 2013, the Indiana Legislature passed amendments to the Indiana Charter Schools Act that resulted in the suspension of significant funding. Indiana Online Learning Options, Inc. believes this was not the intent of the legislation and has appealed this result with its elected officials. Indiana Online Learning Options, Inc. believes that it will ultimately be successful in restoring the income through legislative channels and continues to reflect this amount as a receivable on its statements of financial position as of June 30, 2019 and 2018. Accounting principles generally accepted in the United States of America require a potential gain that is contingent upon a future event be recognized when the amount is realized. If Indiana Online Learning Options, Inc. were to recognize this gain contingency when realized, a write down of receivables in the amount of $3,848,885 would be required as of June 30, 2019 and 2018. Accordingly, net assets without donor restrictions as of June 30, 2019 and 2018 would be reduced by this amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Online Learning Options, Inc. as of June 30, 2019 and 2018, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Likewise, the Schedule of Financial Position by School on page 14 and 15 and the Schedule of Activities and Change in Net Assets by School on page 16 and 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2020 on our consideration of Indiana Online Learning Options, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Indiana Online Learning Options, Inc.'s internal control over financial reporting and compliance.

DONOVAN
Indianapolis, Indiana
February 5, 2020

Donovan

INDIANA ONLINE LEARNING OPTIONS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 6,233,510	$ 7,957,200
State tution support receivable	3,848,885	3,848,885
Grants receivable	1,208,657	697,374
Other receivables	-	12,270
Prepaid expenses	-	1,229
Total current assets	11,291,052	12,516,958
PROPERTY AND EQUIPMENT		
Leasehold improvements	4,568	4,568
Furniture and equipment	94,944	78,950
Less: accumulated depreciation	(73,250)	(61,892)
Property and equipment, net	26,262	21,626
TOTAL ASSETS	$ 11,317,314	$ 12,538,584
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Connections Academy of Indiana, LLC	$ 10,410,885	$ 11,489,850
Accounts payable and accrued expenses	877,164	1,012,944
Total current liabilities	11,288,049	12,502,794
NET ASSETS, WITHOUT DONOR RESTRICTIONS	29,265	35,790
TOTAL LIABILITIES AND NET ASSETS	$ 11,317,314	$ 12,538,584

INDIANA ONLINE LEARNING OPTIONS, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 32,038,449	$ 27,547,039
Grant revenue	2,094,215	1,604,075
Contributions	208,573	823,946
Other	-	84
Total revenue and support	34,341,237	29,975,144
EXPENSES		
Program services	30,475,163	27,238,884
Management and general	3,872,599	2,715,919
Total expenses	34,347,762	29,954,803
CHANGE IN NET ASSETS	(6,525)	20,341
NET ASSETS, BEGINNING OF YEAR	35,790	15,449
NET ASSETS, END OF YEAR	$ 29,265	$ 35,790

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

INDIANA ONLINE LEARNING OPTIONS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 8,978,774	$ -	$ 8,978,774	$ 8,258,760	$ -	$ 8,258,760
Employee benefits	2,618,474	-	2,618,474	2,429,474	-	2,429,474
Staff development and recruitment	503,162	2,820	505,982	257,726	1,722	259,448
Authorizer fees	-	736,248	736,248	-	652,391	652,391
Professional services	588,150	403,706	991,856	335,840	501,053	836,893
School administration and support services	4,991,040	2,458,310	7,449,350	3,576,561	1,434,648	5,011,209
Classroom and office supplies	7,531,654	-	7,531,654	7,493,289	-	7,493,289
Technology	4,010,839	-	4,010,839	3,746,211	-	3,746,211
Testing	977,435	-	977,435	905,904	-	905,904
Occupancy	158,486	-	158,486	144,427	-	144,427
Travel	25,802	-	25,802	18,611	-	18,611
Depreciation	11,358	-	11,358	11,538	-	11,538
Equipment	14,427	-	14,427	13,559	-	13,559
Repairs and maintenance	2,770	-	2,770	1,541	-	1,541
Insurance	-	8,400	8,400	-	2,820	2,820
Other	62,792	263,115	325,907	45,443	123,285	168,728
Total functional expenses	$ 30,475,163	$ 3,872,599	$ 34,347,762	$ 27,238,884	$ 2,715,919	$ 29,954,803

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

INDIANA ONLINE LEARNING OPTIONS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (6,525)	$ 20,341
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	11,358	11,538
Changes in certain assets and liabilities:		
Grants receivable	(511,283)	28,612
Other receivables	12,270	(12,270)
Prepaid expenses	1,229	1,591
Due to Connections Academy of Indiana, LLC	(1,078,965)	2,821,179
Accounts payable and accrued expenses	(135,780)	287,327
Refundable advances	-	(8,229)
Net cash provided by (used in) operating activities	(1,707,696)	3,150,089
INVESTING ACTIVITIES		
Purchase of property and equipment	(15,994)	(1,436)
NET CHANGE IN CASH	(1,723,690)	3,148,653
CASH, BEGINNING OF YEAR	7,957,200	4,808,547
CASH, END OF YEAR	$ 6,233,510	$ 7,957,200

INDIANA ONLINE LEARNING OPTIONS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indiana Online Learning Options, Inc. (the "IOL") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, and is the governing body of two virtual public charter schools, Indiana Connections Academy ("INCA") and Indiana Connections Career Academy ("INCC"). The 2017-2018 school year was the first year of operations for INCC. Both INCA and INCC (together referred to as "the Schools") operate under Indiana Code 20-24 and are sponsored by Ball State University. The Schools are available to students residing in the State of Indiana and provide educational instruction to approximately 5,100 students in grades kindergarten through twelve.

Financial Statement Presentation – Effective with the June 30, 2019 year end, IOL 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. Net assets as of June 30, 2019 and 2018 were without donor restrictions.

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 INCA and INCC receive an amount per student in relation to funding received by other public schools. 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 portion of IOL's revenue is the product of cost reimbursement grants. Accordingly, IOL 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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. IOL believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary with regard to such receivables.

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, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 are charged to expense as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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	3 to 7 years
Furniture and equipment	5 to 7 years

Taxes on Income – Indiana Online Learning Options, Inc. 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, IOL would be subject to tax on income unrelated to its tax-exempt purpose. For the periods 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 IOL 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. IOL 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 – IOL evaluated subsequent events through February 5, 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 - LEGISLATIVE CHANGES

Pursuant to IC §20-49-7, the State Board of Education was authorized to advance funds to charter schools via the State's Common School Fund thereby allowing charter schools to finance operations for periods when adequate tuition support was not received. These cash advances were made to charter schools through executed loan agreements with repayment terms that were defined in the statute.

In April 2013, the Indiana General Assembly repealed IC §20-49-7 with the passing of House Bill 1001 and established an appropriation to forgive charter schools for cash advances previously made through the Common School Fund. IOL obtained a loan in the amount of $3,594,503 in 2013, and subsequently repaid $599,084. IOL applied for and was forgiven from repaying the balance of the remaining indebtedness plus accrued interest of $3,010,396 as of June 30, 2013. An allowance has been established against IOL's related accounts receivable balance in the amount of the loan forgiven (See Note 3).

NOTE 2 - LEGISLATIVE CHANGES, Continued

In the same session, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, IOL followed the practice of recognizing at June 30 a receivable for payments to be made to IOL in the subsequent July through December time period, which represented amounts due for services rendered. As of June 30, 2013, total funding remaining due to IOL was $6,859,281. Effective July 1, 2013, school funding is paid following the State of Indiana fiscal year of July to June, which is similar to IOL's academic year.

NOTE 3 - STATE TUITION SUPPORT RECEIVABLE

IOL's state tuition support receivable balance consists primarily of amounts due from the State of Indiana for the operating periods in which State funding has not been received. As of June 30, 2013, the State forgave the remaining balance of IOL's operating loan made through the Common School Fund. As the loan was provided to finance IOL's operations when revenue was not received, IOL has established an allowance against the accounts receivable balance in the amount forgiven.

On June 10, 2016, IOL sued the State of Indiana, its Governor, its Superintendent of Schools, and its Department of Education for the remaining tuition support. On November 14, 2018, the trial court entered a final order awarding IOL a judgement of $3,848,885. The State appealed the trial court's judgment, and on September 24, 2019, the Indiana Court of Appeals reversed and ordered that judgement be entered in favor of the State. On November 8, 2019, INCA filed a request with the Indiana Supreme Court asking that it assume jurisdiction of the case, vacate the Court of Appeals' order, and reinstate the trial court's judgement. The Indiana Supreme Court is likely to decide by mid-February whether it will ask for oral argument on INCA's request, or simply deny it. If INCA's request is denied, the Court of Appeals' decision will stand.

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2019 and 2018:

Tuition support	$ 6,267,272
Special education grant	592,009
	6,859,281
Less: Common School loan forgiven	(3,010,396)
	$ 3,848,885

NOTE 4 - RETIREMENT PLANS

IOL' personnel are eligible to participate in a 401(k) retirement plan sponsored by Pearson Online & Blended Learning, LLC. Under the plan, IOL matches 100% of employee contributions up to 3% of compensation and 50% of employee contributions for the next 3% of compensation. IOL may also make additional discretionary contributions. No discretionary contributions were made in 2019 and 2018. Retirement plan expense for the years ended June 30, 2019 and 2018 was $176,137 and $148,205, respectively.

NOTE 5 - LEASE

IOL leases its facilities under an operating lease through June 30, 2021. Expense under the lease for the years ended June 30, 2019 and 2018 was $158,486 and $144,427, respectively. Future minimum lease obligations under this lease are as follows for the years ending June 30:

2020	$ 159,108
2021	161,989

NOTE 6 - COMMITMENTS

INCA and INCC operate under a single charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charter, IOL agrees to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $736,248 and $652,391 for the years ended June 30, 2019 and 2018, respectively. The charters remain in effect until June 30, 2021 and are renewable thereafter by mutual consent.

IOL has contracted with Connections Academy of Indiana, LLC to provide instructional materials and services as well as administrative and technology services to IOL. As compensation for these services, IOL negotiates a schedule of fees for services for each year of the term of agreement, which remains in effect until June 30, 2021.

Connections Academy of Indiana, LLC has agreed to make a contribution and/or issue credits against the amounts billed for services and products provided, if needed, to ensure that IOL does not end a fiscal year with a financial deficit. The total contribution was $208,573 and $823,946 for the years ended June 30, 2019 and 2018, respectively, and the credits issued to IOL were $1,609,427 and $2,475,054 for the years ended June 30, 2019 and 2018, respectively.

Such fees were as follows for the years ended June 30:

	2019	2018
Enrollment/unit based fees	$ 13,504,265	$ 12,952,062
Revenue based fees	8,365,137	6,509,132
	21,869,402	19,461,194
Less: total contribution and credits issued	(1,818,000)	(3,298,000)
Net fees	$ 20,051,402	$ 16,163,194

NOTE 7 - RISKS AND UNCERTAINTIES

IOL provides educational instruction services in a virtual school environment to families residing 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 IOL. Additionally, IOL is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on IOL.

Financial instruments that potentially subject IOL to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all of the receivable balance was due from the State of Indiana. In addition, cash deposits are maintained at PNC Bank, and are insured up to the FDIC insurance limit.

NOTE 8 - LIQUIDITY

Under ASU 2016-14, IOL 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. IOL's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total $7,442,167, all of which are available to meet cash needs for general expenditures within the next year. The state education support receivable has been excluded from financial assets as the date of payment, if any, cannot be determined.

From time to time, IOL receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, IOL 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 IOL'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 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. Management of IOL 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.

INDIANA ONLINE LEARNING OPTIONS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Total Federal Awards Expended
U.S. DEPARTMENT OF EDUCATION				
Pass-through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	19-9905	$	674,293
	84.010	19-9035		22,633
Special Education Cluster				
Special Education - Grants to States	84.027	19611-546-PN01		749,570
	84.027	19611-608-PN01		18,460
Supporting Effective Instruction State Grants	84.367	S367A180013		115,333
Student Support and Academic Enrichment	84.424	S4224A180015		24,607
Total federal awards expended			$	1,604,896

See independent auditors' report and accompanying notes to this schedule

INDIANA ONLINE LEARNING OPTIONS, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Indiana Online Learning Options, Inc. ("IOL") under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of IOL, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of IOL.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

IOL has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

INDIANA ONLINE LEARNING OPTIONS, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2019

	INCA	INCC	Total
ASSETS			
CURRENT ASSETS			
Cash	$ 5,857,000	$ 376,510	$ 6,233,510
State tution support receivable	3,848,885	-	3,848,885
Grants receivable	1,174,304	34,353	1,208,657
Total current assets	10,880,189	410,863	11,291,052
PROPERTY AND EQUIPMENT			
Leasehold improvements	4,568	-	4,568
Furniture and equipment	94,944	-	94,944
Less: accumulated depreciation	(73,250)	-	(73,250)
Property and equipment, net	26,262	-	26,262
TOTAL ASSETS	$ 10,906,451	$ 410,863	$ 11,317,314
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Due to Connections Academy of Indiana, LLC	$ 10,073,483	$ 337,402	$ 10,410,885
Accounts payable and accrued expenses	815,812	61,352	877,164
Total current liabilities	10,889,295	398,754	11,288,049
NET ASSETS, WITHOUT DONOR RESTRICTIONS	17,156	12,109	29,265
TOTAL LIABILITIES AND NET ASSETS	$ 10,906,451	$ 410,863	$ 11,317,314

See independent auditors' report

INDIANA ONLINE LEARNING OPTIONS, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2018

	INCA	INCC	Total
ASSETS			
CURRENT ASSETS			
Cash	$ 7,844,364	$ 112,836	$ 7,957,200
State tution support receivable	3,848,885	-	3,848,885
Grants receivable	681,044	16,330	697,374
Other receivables	12,270	-	12,270
Prepaid expenses	1,229	-	1,229
Total current assets	12,387,792	129,166	12,516,958
PROPERTY AND EQUIPMENT, NET			
Leasehold improvements	4,568	-	4,568
Furniture and equipment	78,950	-	78,950
Less: accumulated depreciation	(61,892)	-	(61,892)
Property and equipment, net	21,626	-	21,626
TOTAL ASSETS	$ 12,409,418	$ 129,166	$ 12,538,584
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Due to Connections Academy of Indiana, LLC	$ 11,427,575	$ 62,275	$ 11,489,850
Accounts payable and accrued expenses	957,702	55,242	1,012,944
Total current liabilities	12,385,277	117,517	12,502,794
NET ASSETS, WITHOUT DONOR RESTRICTIONS	24,141	11,649	35,790
TOTAL LIABILITIES AND NET ASSETS	$ 12,409,418	$ 129,166	$ 12,538,584

See independent auditors' report

INDIANA ONLINE LEARNING OPTIONS, INC.

SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

For the Year Ended June 30, 2019

	INCA	INCC	Total
REVENUE AND SUPPORT			
State education support	$ 30,050,026	$ 1,988,423	$ 32,038,449
Grant revenue	2,039,318	54,897	2,094,215
Contribution revenue	-	208,573	208,573
Total revenue and support	32,089,344	2,251,893	34,341,237
EXPENSES			
Program services	28,336,049	2,139,114	30,475,163
Management and general	3,760,280	112,319	3,872,599
Total expenses	32,096,329	2,251,433	34,347,762
CHANGE IN NET ASSETS	(6,985)	460	(6,525)
NET ASSETS, BEGINNING OF YEAR	24,141	11,649	35,790
NET ASSETS, END OF YEAR	$ 17,156	$ 12,109	$ 29,265

INDIANA ONLINE LEARNING OPTIONS, INC.

SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

For the Year Ended June 30, 2018

	INCA	INCC	Total
REVENUE AND SUPPORT			
State education support	$ 27,120,479	$ 426,560	$ 27,547,039
Grant revenue	1,585,069	19,006	1,604,075
Contribution revenue	1,000	822,946	823,946
Other revenue	84	-	84
Total revenue and support	28,706,632	1,268,512	29,975,144
EXPENSES			
Program services	26,003,184	1,235,700	27,238,884
Management and general	2,694,756	21,163	2,715,919
Total expenses	28,697,940	1,256,863	29,954,803
CHANGE IN NET ASSETS	8,692	11,649	20,341
NET ASSETS, BEGINNING OF YEAR	15,449	-	15,449
NET ASSETS, END OF YEAR	$ 24,141	$ 11,649	$ 35,790

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Indiana Online Learning Options, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Indiana Online Learning Options, Inc. ("IOL"), 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, and have issued our report thereon dated February 5, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered IOL's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IOL's internal control. Accordingly, we do not express an opinion on the effectiveness of IOL's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IOL's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of IOL's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

Donovan

Indianapolis, Indiana
February 5, 2020

Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *THE UNIFORM GUIDANCE*

The Board of Directors
Indiana Online Learning Options, Inc.

Report on Compliance for Each Major Federal Program

We have audited Indiana Online Learning Options, Inc.'s ("IOL") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of IOL's major federal programs for the year ended June 30, 2019. IOL's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of IOL's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about IOL's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of IOL's compliance.

Opinion on Each Major Federal Program

In our opinion, Indiana Online Learning Options, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

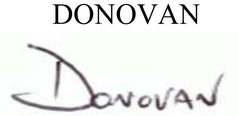
Management of Indiana Online Learning Options, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered IOL's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of IOL's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN



Indianapolis, Indiana
February 5, 2020

INDIANA ONLINE LEARNING OPTIONS, INC.
OTHER REPORT
For the Year Ended June 30, 2019

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Qualified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Special Education Cluster
84.027	Special Education - Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

No matters were reportable.

III. Federal Award Findings and Questioned Costs

No matters were reportable.

INDIANA ONLINE LEARNING OPTIONS, INC.
OTHER REPORT
For the Year Ended June 30, 2019

The report presented herein was prepared in addition to another official report prepared for IOL as listed below:

Supplemental Audit Report of Indiana Online Learning Options, 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.*

SUPPLEMENTAL AUDIT REPORT
OF
INDIANA ONLINE LEARNING OPTIONS, INC.

MARION COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan
CPAs

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INDIANA ONLINE LEARNING OPTIONS, INC.
MARION COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
President of Board of Directors	Stacy Taylor	07/01/18 – 06/30/19
Executive Director	Melissa Brown	07/01/18 – 06/01/19
	Chandre Sanchez Reyes	06/02/19 – 06/30/19
Board Treasurer	Ravi Shah	07/01/18 – 06/30/19

Donovan CPAs

The Board of Directors
Indiana Online Learning Options, Inc.

We have audited the financial statements of Indiana Online Learning Options, Inc. ("IOL") as of and for the year ended June 30, 2019 and have issued our report thereon dated February 5, 2020. As part of our audit, we tested IOL's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe IOL was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
February 5, 2020

REQUIRED REPORTS

IOL is required to file two biannual financial reports ("Form 9") that accurately reflect its cash activity. Neither Indiana Connections Academy nor Indiana Connections Career Academy properly separated grants by fund on the Form 9. Additionally, funds with negative balances do not agree to the balance of federal awards awaiting reimbursement.

A fund, as used in the Charter School Manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 3)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

SALES TAX EXEMPTION

We selected thirteen expenses for testing and noted Indiana Connections Career Academy paid sales tax on two items selected for testing. The taxes paid were minimal.

Charter schools are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application shall be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10).

INDIANA ONLINE LEARNING OPTIONS, INC.
MARION COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on January 27, 2020 with the School's Board of Directors and representatives from Pearson Education. The Official Response has been made a part of this report and may be found on page 5.

The Board of Directors
Indiana Online Learning Options, Inc.

As part of the financial statement audit of Indiana Online Learning Options, Inc. ("IOL") as of and for the year ended June 30, 2019, Donovan CPA's tested IOL's compliance with provisions of the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools issued by the Indiana State Board of Accounts and related provisions of laws, regulations, and grant agreements, and has communicated Audit Results and Comments. Included herein is the Office Response to the Comments provided by Donovan CPA in their report dated December xx, 2019:

IOL Response to Comment on Required Reports – The Form 9 submitted for IOL for the period of January 2019 – June 2019 was due on July 31, 2019 and was prepared and submitted based on preliminary financial statements for the period and submitted to the Indiana Department of Education timely. Subsequent to the submission of the Form 9, adjustments were recorded to the financials which resulted in variances between the final financial statements and the information captured in the Form 9. The School will continue to finalize financials as timely as possible to ensure variances between Form 9 submissions and final financial statements are mitigated.

IOL Response to Comment on Sales Tax Exemption – Prior to invoice payment, IOL will implement additional review procedures to ensure sales tax is not remitted with invoice payment. Upon receipt of invoices from vendors, IOL will review invoices to verify sales tax has not been captured on the invoice prior to payment of the invoice and will provide Sales Tax Exemption certificate to vendors where sales tax has been captured on the invoice.

IOL will ensure the responses to the above Comments are incorporated immediately into the School's financial procedures.

Sincerely,

Chandre Sanchez Reyes
Executive Director, Indiana Online Learning Options, Inc.

MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.

d/b/a INSPIRE ACADEMY

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Muncie Public Charter School of Inquiry, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Muncie Public Charter School of Inquiry, Inc. d/b/a Inspire Academy, which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muncie Public Charter School of Inquiry, Inc. d/b/a Inspire Academy as of June 30, 2019 and 2018, 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

Donovan

Indianapolis, Indiana
October 3, 2019

MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.

d/b/a INSPIRE ACADEMY

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 345,784	$ 280,133
Accounts receivable	5,864	7,864
Prepaid expenses	68,709	66,574
Total current assets	420,357	354,571
PROPERTY AND EQUIPMENT		
Land	76,880	76,880
Building and improvements	203,254	194,404
Furniture and equipment	286,098	269,868
Textbooks	13,092	13,092
Less: accumulated depreciation	(275,878)	(238,579)
Property and equipment, net	303,446	315,665
TOTAL ASSETS	$ 723,803	$ 670,236
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of note payable	$ 75,000	$ -
Current portion of capital lease obligation	1,182	1,116
Accounts payable and accrued expenses	59,083	91,673
Refundable advances	71,613	-
Total current liabilities	206,878	92,789
LONG-TERM LIABILITIES		
Note payable	150,000	225,000
Capital lease obligation, net of current portion	735	1,924
Total long-term liabilities	150,735	226,924
Total liabilities	357,613	319,713
NET ASSETS, WITHOUT DONOR RESTRICTIONS	366,190	350,523
TOTAL LIABILITIES AND NET ASSETS	$ 723,803	$ 670,236

MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
d/b/a INSPIRE ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 1,478,323	$ 1,590,996
Grant revenue	347,190	419,906
Student fees	16,353	21,234
Contributions	39,049	24,373
Other income	20,003	24,113
Total revenue and support	1,900,918	2,080,622
EXPENSES		
Program services	1,417,561	1,528,520
Management and general	467,690	427,283
Total expenses	1,885,251	1,955,803
CHANGE IN NET ASSETS	15,667	124,819
NET ASSETS, BEGINNING OF YEAR	350,523	225,704
NET ASSETS, END OF YEAR	$ 366,190	$ 350,523

MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
d/b/a INSPIRE ACADEMY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 724,620	$ 257,601	$ 982,221	$ 711,541	$ 221,555	$ 933,096
Employee benefits	176,730	63,145	239,875	168,503	52,448	220,951
Staff development	57,728	-	57,728	66,916	-	66,916
Professional services	124,119	72,237	196,356	196,149	79,076	275,225
Connectivity	31,325	-	31,325	26,675	-	26,675
Authorizer oversight fees	-	27,937	27,937	-	31,322	31,322
Food costs	65,107	-	65,107	69,642	-	69,642
Equipment	13,931	-	13,931	25,322	-	25,322
Classroom and office supplies	31,716	2,400	34,116	26,002	3,159	29,161
Occupancy	143,396	-	143,396	179,522	-	179,522
Depreciation	37,299	-	37,299	50,928	-	50,928
Interest	-	145	145	-	206	206
Insurance	-	16,829	16,829	-	15,709	15,709
Other	11,590	27,396	38,986	7,320	23,808	31,128
Total functional expenses	$ 1,417,561	$ 467,690	$ 1,885,251	$ 1,528,520	$ 427,283	$ 1,955,803

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

MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
d/b/a INSPIRE ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 15,667	$ 124,819
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	37,299	50,928
Change in certain assets and liabilities:		
Accounts receivable	2,000	586
Prepaid expenses	(2,135)	(39,258)
Accounts payable and accrued expenses	(32,590)	30,567
Refundable advances	71,613	-
Net cash provided by operating activities	91,854	167,642
INVESTING ACTIVITIES		
Purchases of property and equipment	(25,080)	(37,341)
FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(1,123)	(1,058)
NET CHANGE IN CASH	65,651	129,243
CASH, BEGINNING OF YEAR	280,133	150,890
CASH, END OF YEAR	$ 345,784	$ 280,133
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 145	$ 206

MUNCIE PUBLIC CHARTER SCHOOL OF INQUIRY, INC.
d/b/a INSPIRE ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Muncie Public Charter School of Inquiry, Inc. d/b/a Inspire Academy (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 sponsored by Ball State University. In 2019, the School served approximately 175 students in grades pre-kindergarten to eighth by providing an alternative to the traditional elementary school program.

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 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.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consist 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.

Accounts Receivable – Accounts receivable relate primarily to activities funded under federal grants 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.

Revenue Recognition – Revenues generally 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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Muncie Public Charter School of Inquiry, Inc. 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. Tax years ending after 2015 are open to audit for both federal and state purposes.

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, minor replacement costs, and equipment purchases with a unit cost of less than $1,000 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 range from three to five years for furniture and equipment; four years for textbooks; and forty years for building and improvements.

Subsequent Events – The School evaluated subsequent events through October 3, 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 - NOTE PAYABLE

The School has a note payable due to The Roman Catholic Diocese of Lafayette-in-Indiana, Inc. The note is payable in three equal installments of $75,000 each on July 1, 2019, 2020, and 2021 and is non-interest bearing. The note is secured by the school building.

NOTE 3 - CAPITAL LEASE OBLIGATION

The School leases a copier under a capital lease obligation. At June 30, 2019, the cost and accumulated depreciation of the copier were $5,495 and $4,453, respectively.

Following is a schedule of future minimum lease payments under the capital lease for the years ending June 30 and present value of the net minimum lease payments as of June 30, 2019:

2020	$	1,266
2021		850
		2,116
Less: amount representing interest		(199)
	$	1,917

NOTE 4 - REFUNDABLE ADVANCE

During the year ended June 30, 2019, the School received a $100,000 comprehensive counseling initiative implementation grant from the Lilly Endowment. The grant must be spent in accordance with the submitted budget and any funds not expended before June 30, 2022 must be returned. Accordingly, the revenue is recognized as approved expenditures are incurred. As of June 30, 2019, $71,613 remained to be expended.

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Expense under this charter agreement was $27,937 and $31,322 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2022, and is renewable thereafter by mutual consent.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Delaware 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 7 - CONTINGENCIES

The School terminated its lease on its facility at 1620 S. Madison Street, Muncie, Indiana effective June 30, 2016, citing landlord non-performance. The lease was through June 30, 2018 and, as such, the School may be liable for remaining payments. On April 4, 2019, the School received an offer letter from the lessor, The Housing Authority of the City of Muncie, Indiana, to settle for payment in the amount of $300,000. The School responded, via its attorney, on August 4, 2019, stating its opinion and offering to settle based on the following terms: (1) The Housing Authority of the City of Muncie, Indiana, would retain the original security deposit, and (2) the School tenders an additional lump sum payment of $22,000. As of the date of this audit report, no response had been received from The Housing Authority of the City of Muncie, Indiana. The accompanying financial statements do not reflect any liability related to this situation.

NOTE 8 - RETIREMENT PLANS

The School offers retirement benefits provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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 plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2018 (the latest year reported), both TRF and PERF were approximately 80% funded.

In lieu of TRF or PERF, all employees are eligible to participate in a Section 403(b) defined contribution retirement plan sponsored by the School. Under this plan, the School contributed 7% of compensation as defined through October 31, 2014. Since that time, the School has opted to match employee contributions at a rate of 2.33 to 1, but not to exceed 7% of compensation. Additional contributions may also be made to the plan at the discretion of the Board of Directors. No discretionary contributions were made during the years ended June 30, 2019 or 2018.

Retirement plan expense under all plans was $58,440 and $44,880 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the financial 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 accounts receivable. Financial assets at June 30, 2019 total $351,648, all of which are available to meet cash needs for general expenditures within a 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 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.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Lighthouse Academies of Northwest Indiana, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Lighthouse Academies of Northwest Indiana, Inc. as of June 30, 2019 and 2018, 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.

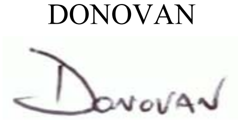
Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Likewise, the schedules of financial position by school and schedules of activities and change in net assets (deficit) by school on pages 15 through 18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January30, 2020 on our consideration of Lighthouse Academies of Northwest Indiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Academies of Northwest Indiana, Inc.'s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana
January 30, 2020

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 1,795,573	$ 2,464,089
Cash - restricted for bond interest	329,526	299,082
Accounts receivable:		
Grants	745,665	818,451
Other	5,844	13,532
Prepaid expenses	12,498	36,110
Total current assets	2,889,106	3,631,264
PROPERTY AND EQUIPMENT, NET	17,277,330	17,892,590
OTHER ASSETS		
Cash - restricted for debt service	1,706,179	1,689,287
Cash - restricted for property repairs and replacement	205,411	201,778
Total other assets	1,911,590	1,891,065
TOTAL ASSETS	$ 22,078,026	$ 23,414,919
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Current portion of bonds payable	$ 295,000	$ 280,000
Accounts payable and accrued expenses	2,908,698	2,369,420
Total current liabilities	3,203,698	2,649,420
LONG-TERM LIABILITIES		
Bonds payable	19,375,000	19,667,454
Less: unamortized debt issuance costs	(235,006)	(244,222)
Total long-term liabilities, net of unamortized debt issuance costs	19,139,994	19,423,232
Total liabilities	22,343,692	22,072,652
NET ASSETS (DEFICIT), WITHOUT DONOR RESTRICTIONS	(265,666)	1,342,267
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 22,078,026	$ 23,414,919

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 15,000,429	$ 15,704,600
Grant revenue	6,072,234	6,006,091
Student fees	66,156	108,550
Fundraising	59,977	73,879
Interest	44,383	18,892
Other	185,780	58,694
Total revenue and support	21,428,959	21,970,706
EXPENSES		
Program services	19,531,443	18,080,661
Management and general	3,472,942	3,472,240
Fundraising	32,507	29,358
Total expenses	23,036,892	21,582,259
CHANGE IN NET ASSETS	(1,607,933)	388,447
NET ASSETS, BEGINNING OF YEAR	1,342,267	953,820
NET ASSETS (DEFICIT), END OF YEAR	$ (265,666)	$ 1,342,267

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 8,977,206	$ 1,034,269	$ -	$ 10,011,475	$ 8,404,447	$ 959,949	$ -	$ 9,364,396
Employee benefits	2,255,039	202,258	-	2,457,297	1,957,996	256,500	-	2,214,496
Staff development and recruitment	295,535	-	-	295,535	54,735	-	-	54,735
Academic services - Lighthouse Academies	-	1,629,802	-	1,629,802	-	1,625,590	-	1,625,590
Authorizer oversight fee	-	307,793	-	307,793	-	322,391	-	322,391
Food service	1,026,193	-	-	1,026,193	1,024,003	-	-	1,024,003
Transportation service	1,258,500	-	-	1,258,500	1,240,874	-	-	1,240,874
Other professional services	813,111	160,369	-	973,480	611,212	179,192	-	790,404
Equipment rental	464,526	-	-	464,526	724,070	-	-	724,070
Classroom, kitchen, and office supplies	552,180	94,096	-	646,276	623,757	66,962	-	690,719
Occupancy	1,534,325	-	-	1,534,325	1,120,832	-	-	1,120,832
Depreciation	823,474	-	-	823,474	819,738	-	-	819,738
Amortization	9,216	-	-	9,216	9,216	-	-	9,216
Interest	1,397,916	-	-	1,397,916	1,409,637	-	-	1,409,637
Other	124,222	44,355	32,507	201,084	80,144	61,656	29,358	171,158
Total functional expenses	$ 19,531,443	$ 3,472,942	$ 32,507	$ 23,036,892	$ 18,080,661	$ 3,472,240	$ 29,358	$ 21,582,259

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

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (1,607,933)	$ 388,447
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	823,474	819,738
Amortization	9,216	9,216
Changes in certain assets and liabilities:		
Grants receivable	72,786	(218,186)
Other receivables	7,688	(13,532)
Prepaid expenses	23,612	52,327
Accounts payable and accrued expenses	539,278	346,747
Net cash provided by (used in) operating activities	(131,879)	1,384,757
INVESTING ACTIVITIES		
Purchases of property and equipment	(208,214)	(465,039)
FINANCING ACTIVITIES		
Principal repayment of note payable	-	(66,667)
Principal repayment of bonds payable	(277,454)	(2,546)
Net cash used in financing activities	(277,454)	(69,213)
NET CHANGE IN CASH	(617,547)	850,505
CASH, BEGINNING OF YEAR	4,654,236	3,803,731
CASH, END OF YEAR	$ 4,036,689	$ 4,654,236
CASH, END OF YEAR		
Cash - unrestricted	$ 1,795,573	$ 2,464,089
Cash - restricted for bond interest	329,526	299,082
Cash - restricted for debt service	1,706,179	1,689,287
Cash - restricted for property repairs and replacement	205,411	201,778
Total cash, end of year	$ 4,036,689	$ 4,654,236
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 1,397,916	$ 1,409,637

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Lighthouse Academies of Northwest Indiana, Inc. ("LANWI"), a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, is the organizer and governing body of two charter schools located in Indiana. Both schools are public charter schools established under Indiana Code 20-24 and are sponsored by Ball State University. Gary Lighthouse Charter School served approximately 1,400 students in grades kindergarten through twelve and East Chicago Lighthouse Charter School served approximately 500 students in grades kindergarten through eight during the 2018 - 2019 school year.

Financial Statement Presentation – Effective with the June 30, 2019 year end, LANWI 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 and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14. Net assets (deficit) as of June 30, 2019 and 2018 were without restrictions.

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 schools receive an amount per student in relation to the funding received by other public schools in the same geographic areas. 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 portion of LANWI's revenue is the product of cost reimbursement grants. Accordingly, LANWI 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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. LANWI believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

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 are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than $5,000 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:

Building and improvements	30 years
Furniture and equipment	3 to 5 years

Debt Issuance Costs – LANWI incurred debt issuance costs totaling $258,046 associated with securing financing under Indiana Finance Authority Education Facilities Revenue Bonds. Amortization of the debt issuance costs is provided on a straight-line basis over the term of the bonds (27 years). Accumulated amortization was $23,040 and $13,824 as of June 30, 2019 and 2018, respectively. Amortization expense was $9,216 for each of the years ended June 30, 2019 and 2018. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented on the statements of financial position as a direct deduction from the carrying amount of the related debt liability.

Taxes on Income – Lighthouse Academies of Northwest Indiana, Inc. 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, LANWI 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 LANWI 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. LANWI has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2015 are open to audit for both federal and state purposes.

Subsequent Events – LANWI evaluated subsequent events through January 30, 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 - RESTRICTED CASH

Cash - restricted for bond interest is reserved for the payment of interest on the bond semi-annually. Funds are placed in the account monthly to cover one-sixth of the semi-annual interest payment.

Cash - restricted for debt service is reserved for the payment of principal and interest on the bond in the event that other funding is unavailable to meet payment requirements.

Cash - restricted for property repairs and replacement was established with the bond proceeds and represents resources available for repairing and replacing facilities.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment was comprised of the following as of June 30:

	2019	2018
Land	$ 1,245,200	$ 1,245,200
Buildings and improvements	17,170,944	17,003,434
Furniture and equipment	1,901,520	1,860,816
	20,317,664	20,109,450
Less: accumulated depreciation	(3,040,334)	(2,216,860)
	$ 17,277,330	$ 17,892,590

NOTE 4 - BONDS PAYABLE

LANWI purchased its facilities with Indiana Finance Authority Educational Facilities Revenue Bonds, Series 2016 with original amounts totaling $19,950,000. Principal is payable in annual installments that increase from $280,000 to $1,575,000, beginning in December 2018 and maturing in December 2044. Interest payments are made semi-annually at rates ranging from 6.25% to 7.25% in accordance with the bond agreements. The bonds are secured by land, buildings, and improvements.

The Indiana Finance Authority Educational Facilities Revenue Bond agreements contain certain covenants requiring:

- submission of audited financial statements within 150 days after the end of the fiscal year or, if audited financial statements are not available at that time, unaudited financial statements, and audited financial statements within ten business days after availability;
- a minimum 45 days cash on hand as of June 30, 2019 and each annual reporting period thereafter (35 days cash on hand as of June 30, 2018); and
- meeting a minimum debt service coverage ratio of 1.15 to 1.00, measured annually.

NOTE 4 - BONDS PAYABLE, Continued

LANWI was not in compliance with the days cash on hand and debt service coverage ratio covenants as of and for the year ended June 30, 2019. LANWI obtained a waiver of the covenant violations from the bond holder.

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

2020	$ 295,000
2021	315,000
2022	335,000
2023	355,000
2024	375,000
Thereafter	17,995,000
	$ 19,670,000

NOTE 5 - NOTE PAYABLE

LANWI had a note payable due to Lighthouse Academies, Inc., which is under contract to manage the LANWI schools. The note provided for monthly interest payments at 4.5% per annum. The note was paid in full in 2018.

NOTE 6 - LEASES

LANWI leases certain items of equipment under operating leases. Total lease expense under operating leases was $182,464 and $80,671 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease payments are as follows for the years ending June 30:

2020	$ 129,132
2021	96,916
2022	84,000
2023	96,000

NOTE 7 - RETIREMENT PLAN

All LANWI personnel are employees of Lighthouse Academies, Inc., which provides management services to LANWI. LANWI personnel are eligible to participate in the Lighthouse Academies, Inc. Section 401(k) retirement plan. Under the plan, LANWI matches 100% of employee contributions up to 4% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the LANWI Board of Directors. No discretionary contributions were made during the years ended June 30, 2019 and 2018. Retirement plan expense was $93,884 and $53,762 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - COMMITMENTS

LANWI has contracted with Lighthouse Academies, Inc. to provide management, administrative, and educational programming services for each of its schools. Under the terms of the agreements, LANWI has agreed to pay an amount equal to 7.5% of revenue, as defined, for such services, plus any necessary travel costs. Expense under the agreements for both academic oversight and travel costs was \$1,629,802 and \$1,625,590 for the years ended June 30, 2019 and 2018, respectively. This agreement remains in effect as long as the schools' charters remain in effect.

LANWI's two schools operate under charters granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charters, LANWI has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received associated with its two schools. Total expense under the charter agreements was \$307,793 and \$322,391 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 - RISKS AND UNCERTAINTIES

LANWI provides education services to families residing in Lake and surrounding counties of 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 LANWI. Additionally, LANWI is subject to monitoring and audit by state and federal agencies. These examinations may result in additional liability to be imposed.

Financial instruments that potentially subject LANWI to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all receivable balances were due from the State of Indiana. Cash deposits are maintained at J.P. Morgan Chase Bank and UMB Bank and are insured up to the FDIC insurance limit of \$250,000. As of June 30, 2019 and 2018, LANWI carried balances in its bank accounts in excess of FDIC insurance limits.

NOTE 10 - LIQUIDITY

Under ASU 2016-14, the LANWI 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 LANWI's financial assets include cash, restricted cash, grants receivable, and other receivables.

Financial assets, June 30, 2019	\$ 4,788,198
Less: those unavailable for general expenditures within one year, due to:	
Restricted cash for use in payment of bond interest, debt service, and property repairs and replacement	(2,241,116)
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,547,082

NOTE 10 - LIQUIDITY, Continued

From time to time, LANWI receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, LANWI 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 LANWI'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 11 - 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 LANWI 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.

SUPPLEMENTARY INFORMATION

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		$ 335,387
National School Lunch Program	10.555		857,615
Total U.S. Department of Agriculture			1,193,002
U.S. DEPARTMENT OF EDUCATION			
Pass-through Indiana Department of Education			
Title I Grants to Local Educational Agencies	84.010	18-9535/19-9535 18-9595/19-9595	2,480,576
Special Education Cluster			
Special Education - Grants to States	84.027	18611-561-PN01	80,960
		19611-561-PN01	32,626
		14217-501-PN01	6,283
		18611-501-PN01	278,887
		19611-501-PN01	68,262
Special Education – Preschool Grants	84.173	19618-501-PN01	681
Total for special education cluster			467,699
Supporting Effective Instruction State Grants	84.367		277,241
Student Support and Academic Enrichment Grants	84.424		122,973
Total U.S. Department of Education			3,348,489
Total federal awards expended			$ 4,541,491

See accompanying notes to this schedule

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lighthouse Academies of Northwest Indiana, Inc. ("LANWI") under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of LANWI, it is not intended to and does not present the financial position, change in net assets (deficit), functional expenses, or cash flows of LANWI.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

LANWI has elected not to use the 10 percent de minimis indirect cost rate allowed under *The Uniform Guidance.*

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2019

	Gary	East Chicago	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash	$ 1,076,859	$ 718,714	$ -	$ 1,795,573
Cash - restricted for bond interest	263,621	65,905	-	329,526
Accounts receivable:				
Grants	553,274	192,391	-	745,665
Other	30,844	-	(25,000)	5,844
Prepaid expenses	-	12,498	-	12,498
Total current assets	1,924,598	989,508	(25,000)	2,889,106
PROPERTY AND EQUIPMENT, NET	13,869,336	3,407,994	-	17,277,330
OTHER ASSETS				
Cash - restricted for debt service	1,364,943	341,236	-	1,706,179
Cash - restricted for property repairs and replacement	164,329	41,082	-	205,411
Total other assets	1,529,272	382,318	-	1,911,590
TOTAL ASSETS	$ 17,323,206	$ 4,779,820	$ (25,000)	$ 22,078,026
LIABILITIES AND NET ASSETS (DEFICIT)				
CURRENT LIABILITIES				
Current portion of bonds payable	$ 236,000	$ 59,000	$ -	$ 295,000
Accounts payable and accrued expenses	2,298,584	635,114	(25,000)	2,908,698
Total current liabilities	2,534,584	694,114	(25,000)	3,203,698
LONG-TERM LIABILITIES				
Bonds payable	15,590,000	3,785,000	-	19,375,000
Less: unamortized debt issuance costs	(189,066)	(45,940)	-	(235,006)
Total long-term liabilities, net of unamortized debt issuance costs	15,400,934	3,739,060	-	19,139,994
Total liabilities	17,935,518	4,433,174	(25,000)	22,343,692
NET ASSETS (DEFICIT), WITHOUT DONOR RESTRICTIONS	(612,312)	346,646	-	(265,666)
TOTAL LIABILTIES AND NET ASSETS (DEFICIT)	$ 17,323,206	$ 4,779,820	$ (25,000)	$ 22,078,026

See independent auditors' report

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

SCHEDULE OF FINANCIAL POSITION BY SCHOOL

June 30, 2018

	Gary	East Chicago	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash	$ 1,930,089	$ 534,000	$ -	$ 2,464,089
Cash - restricted for bond interest	239,266	59,816	-	299,082
Accounts receivable:				
Grants	718,147	100,304	-	818,451
Other	143,962	13,032	(143,462)	13,532
Prepaid expenses	22,551	13,559	-	36,110
Total current assets	3,054,015	720,711	(143,462)	3,631,264
PROPERTY AND EQUIPMENT, NET	14,345,135	3,547,455	-	17,892,590
OTHER ASSETS				
Cash - restricted for debt service	1,358,256	331,031	-	1,689,287
Cash - restricted for property repairs and replacement	162,325	39,453	-	201,778
Total other assets	1,520,581	370,484	-	1,891,065
TOTAL ASSETS	$ 18,919,731	$ 4,638,650	$ (143,462)	$ 23,414,919
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Note payable	$ 225,263	54,737	$ -	$ 280,000
Accounts payable and accrued expenses	1,821,711	691,171	(143,462)	2,369,420
Total current liabilities	2,046,974	745,908	(143,462)	2,649,420
LONG-TERM LIABILITIES				
Bonds payable	15,822,200	3,845,254		19,667,454
Less: unamortized debt issuance costs	(196,480)	(47,742)	-	(244,222)
Total long-term liabilities, net of unamortized debt issuance costs	15,625,720	3,797,512	-	19,423,232
Total liabilities	17,672,694	4,543,420	(143,462)	22,072,652
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,247,037	95,230	-	1,342,267
TOTAL LIABILTIES AND NET ASSETS	$ 18,919,731	$ 4,638,650	$ (143,462)	$ 23,414,919

See independent auditors' report

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT) BY SCHOOL

For the Year Ended June 30, 2019

	Gary	East Chicago	Total
REVENUE AND SUPPORT			
State education support	$ 11,138,255	$ 3,862,174	$ 15,000,429
Grant revenue	4,639,325	1,432,909	6,072,234
Student fees	60,187	5,969	66,156
Fundraising	18,102	41,875	59,977
Interest	27,278	17,105	44,383
Other	184,238	1,542	185,780
Total revenue and support	16,067,385	5,361,574	21,428,959
EXPENSES			
Program services	15,238,321	4,293,122	19,531,443
Management and general	2,688,413	784,529	3,472,942
Fundraising	-	32,507	32,507
Total expenses	17,926,734	5,110,158	23,036,892
CHANGE IN NET ASSETS	(1,859,349)	251,416	(1,607,933)
NET ASSETS, BEGINNING OF YEAR	1,247,037	95,230	1,342,267
NET ASSETS (DEFICIT), END OF YEAR	$ (612,312)	$ 346,646	$ (265,666)

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL

For the Year Ended June 30, 2018

	Gary	East Chicago	Total
REVENUE AND SUPPORT			
State education support	$ 11,878,141	$ 3,826,459	$ 15,704,600
Grant revenue	4,854,927	1,151,164	6,006,091
Student fees	90,330	18,220	108,550
Fundraising	20,598	53,281	73,879
Interest	15,114	3,778	18,892
Other	58,216	478	58,694
Total revenue and support	16,917,326	5,053,380	21,970,706
EXPENSES			
Program services	13,941,681	4,138,980	18,080,661
Management and general	2,668,627	803,613	3,472,240
Fundraising	-	29,358	29,358
Total expenses	16,610,308	4,971,951	21,582,259
CHANGE IN NET ASSETS	307,018	81,429	388,447
NET ASSETS, BEGINNING OF YEAR	940,019	13,801	953,820
NET ASSETS, END OF YEAR	$ 1,247,037	$ 95,230	$ 1,342,267

See independent auditors' report

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lighthouse Academies of Northwest Indiana, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net assets (deficit), functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lighthouse Academies of Northwest Indiana, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lighthouse Academies of Northwest Indiana, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Academies of Northwest Indiana, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

Indianapolis, Indiana
January 30, 2020

Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *THE UNIFORM GUIDANCE*

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

Report on Compliance for Each Major Federal Program

We have audited Lighthouse Academies of Northwest Indiana, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the schools' major federal programs for the year ended June 30, 2019. Lighthouse Academies of Northwest Indiana, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lighthouse Academies of Northwest Indiana, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lighthouse Academies of Northwest Indiana, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lighthouse Academies of Northwest Indiana, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Lighthouse Academies of Northwest Indiana, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-01. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of Lighthouse Academies of Northwest Indiana, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lighthouse Academies of Northwest Indiana, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Academies of Northwest Indiana, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-01 to be a significant deficiency.

Lighthouse Academies of Northwest Indiana, Inc.'s response to the noncompliance findings identified in our audit is included on page 25. Lighthouse Academies of Northwest Indiana Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN
Indianapolis, Indiana
January 30, 2020

DONOVAN

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiency identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold use to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

No matters are reportable.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

III. Federal Award Findings and Questioned Costs

FINDING 2019-01 GENERAL PROCUREMENT STANDARDS, RECORD RETENTION
Significant Deficiency

Criteria
Per 2 CFR part 200.318(i), "the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

Per 2 CFR part 200, Appendix XI, Compliance Supplement, section 3.1-I-1, "Institutions of higher education, hospitals, and other non-profit organizations will use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110 (2 CFR part 215). Their subrecipients will use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110 (2 CFR part 215) or the A-102 common rule, as applicable."

Condition
Lighthouse Academies of Northwest Indiana, Inc.'s (the "School") procurement policy includes requirements for minimum procurement records retention, however, no such documentation was retained to confirm the school was properly applying its procurement policy.

Cause
The School did not retain documentation that shows its procurements were made in accordance with OMB Circular A-110 (2 CFR part 215).

Effect
We were unable to test the School's application of the procurement policies.

Recommendation
We recommend the School implement controls to ensure document retention per its procurement policies. These controls should specifically address the School's internal processes of filing and documenting the history of procurement.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan on page 25.

Lighthouse Academies of Northwest Indiana, Inc.

January 30, 2020

Donovan CPAs
9245 N. Meridian St, Suite 302
Indianapolis, IN 46260

Attn: Benjamin A. Lippert, CPA

RE: Response to Finding 2019-01 General Procurement Standards, Record Retention

The school did not retain documentation that shows its procurements were made in accordance with OMB Circular A-110 (2 CFR part 215)

> Response: To ensure document retention per the adopted procurement policies, a secure electronic document filing system has been created and is managed by the IT department of Lighthouse Academies. This system allows for documents to be shared, accessed and available for future reference.

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
OTHER REPORT
For the Year Ended June 30, 2019

The reports presented herein were prepared in addition to another official report prepared for Lighthouse Academies of Northwest Indiana, Inc. as listed below:

Supplemental Audit Report of Lighthouse Academies of Northwest Indiana, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.

LAKE COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
LAKE COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
President of Board of Directors	Dr. Kay Ward McDuffie	07/01/18 – 06/30/19
Superintendent	Jessica Beasley	07/01/18 – 06/30/19
Controller	Mary Beth Rousseau	07/01/18 – 06/30/19

The Board of Directors
Lighthouse Academies of Northwest Indiana, Inc.

We have audited the financial statements of Lighthouse Academies of Northwest Indiana, Inc. ("LANWI") as of and for the year ended June 30, 2019 and have issued our report thereon dated January 30, 2020. As part of our audit, we tested LANWI's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe LANWI was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
January 30, 2020

FINANCIAL REPORTING

Our examination of the semi-annual financial reports to the Indiana Department of Education (Form 9) for the period July 1, 2018 to June 30, 2019 revealed the following reportable issues:

1. The overall cash balances on the Form 9 reports at June 30, 2019 for both LANWI schools did not agree with the balance of cash per the schools' accounting records.
    a. Gary Lighthouse Charter School's Form 9 reported $1,720,940 in cash. The accounting records reported $1,076,859 in cash.
    b. East Chicago Lighthouse Charter School's Form 9 reported $689,713 in cash. The accounting records reported $718,714 in cash.
2. Fund balances for federal grants did not reflect the true balances of the grant programs for either LANWI school.
3. Multiple fund balances on both LANWI schools were overdrawn. The overdrawn accounts were not a result of awaiting reimbursements.

A fund, as used in the Charter School Manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 3)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

RECEIPTS AND DEPOSITS

We examined records relating to cash received at the schools pertaining to items such as extra-curricular activity fees, fundraisers, and donations. We tested 25 receipts at each LANWI school (50 in total). From transactions tested for Gary Lighthouse Charter School, we noted 6 out of 25 receipts were not deposited in a timely manner. From transactions tested for East Chicago Lighthouse Charter School, we noted 8 out of 25 receipts were not deposited in a timely manner.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

PAYROLL COMPLIANCE

We selected a sample of 15 employees from each school to test the adequacy of supporting payroll documentation. For Gary Lighthouse Charter School, we noted that 2 out of 15 employees did not have signed contracts.

All compensation and benefits paid to employees must be included in the labor contract or salary schedule unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

TEXTBOOK REIMBURSEMENT ELIGIBILITY

We tested the determinations made by both schools for student eligibility for textbook reimbursement. We noted no errors in the testing for Gary Lighthouse Charter School, however East Chicago Lighthouse Charter School was unable to provide support for the eligibility determinations made for 2 of the 10 students selected for testing.

The local educational agency must determine household eligibility for free or reduced-price meals either through direct certification or the application process at or about the beginning of the school year. [7 CFR, part 245.6(c)]

SCHOOL LUNCH REPORTING

We tested one month of meal claim supporting records for each school for agreement with actual meals claimed for federal reimbursement. We noted no errors in testing for East Chicago Lighthouse Charter School, however, Gary Lighthouse Charter School's November 2018 records of meals served showed 249 fewer breakfasts than the amount reported on the monthly claim (i.e. claim was too high). This same claim reported 63 fewer lunches than were served at the school (i.e. claim was too low). We selected three additional months' claims for Gary Lighthouse Charter School noting agreement between the records for meals served and meals claimed. The discrepancy noted in the November 2018 records appears to be an isolated incident.

LANWI should contact the Indiana Department of Education to determine if the discrepancies noted above require reimbursement to the state.

Charter schools should have internal controls in place to provide reasonable assurance that their goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

TICKET SALES

Gary Lighthouse Charter School was unable to provide tickets for 1 of 3 events selected for testing.

The designated charter school employee shall be responsible for the proper accounting for all tickets and must keep a record of the number purchased, the number issued for sale, and the number returned. The designee must see that proper accounting is made for the cash received from those sold. All tickets shall be pre-numbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the charter school, the charter school's receipt issued therefore must show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

MINIMUM INTERNAL CONTROL STANDARDS

Per review and discussion with school personnel, we determined LANWI was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

LIGHTHOUSE ACADEMIES OF NORTHWEST INDIANA, INC.
LAKE COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on January 30, 2020 with Dr. Kay Ward McDuffie (President of Board of Directors), Yvette Irons-Johnson (Board Treasurer), Jessica Beasley, (Executive Director), Brent Elliott, Mary Beth Rousseau, and Monica Rivera (Representatives from Lighthouse Academies, Inc). Official response has been made part of this report and may be found on page 7.

Lighthouse Academies, Inc.

January 30, 2020

Donovan CPAs
9245 N. Meridian St, Suite 302
Indianapolis, IN 46260

Attn: Benjamin A. Lippert, CPA

RE: Reponses to Lighthouse Academies of Northwest Indiana Supplemental Audit Report

Financial Reporting

The overall cash balances on the Form 9 reports at June 30, 2019 for the LANWI schools did not agree with the balance of cash per the schools' accounting records.

> Response: A reconciliation will be done between the Form 9 reported balances and the audited cash balances. Corrections will be made to bring the balances in agreement.

Fund balances for federal grants did not reflect the true balances of the grant programs for either LANWI school.

> Response: A reconciliation will be done between the Form 9 reported balances and the actual fund balances. Corrections will be made to bring the fund balances to be reported on the Form 9 to the actual fund balances.

Multiple fund balances on both LANWI schools were overdrawn. The overdrawn accounts were not a result of awaiting reimbursements.

> Response: A reconciliation will be done between the Form 9 reported balances and the actual fund balances. Corrections will be made to bring the fund balances to be reported on the Form 9 to the actual fund balances.

Receipts and Deposits

Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. From transactions tested for Gary Lighthouse Charter School, 6 out of 25 receipts were not deposited in a timely manner. From transactions tested for East Chicago Lighthouse Charter School, 8 out of 25 receipts were not deposited in a timely manner.

> Response: Training on the current policy and procedures will be provided to school personnel responsible for accepting and depositing checks and cash received at the school.

Payroll Compliance

All compensation and benefits paid to employees much be included in the labor contract or salary schedule. From employees tested for Gary Lighthouse Charter School, 2 out of 15 employees did not have signed contracts.

Response: Procedures have been reviewed with school personnel and a personnel file check list is now required to be completed before any new staff member is hired. New personnel files are audited monthly by the Regional Operations Director and HR Coordinator for LHA network.

Textbook Reimbursement Eligibility

The local educational agency must determine household eligibility for free or reduced-price meals either through direct certification or the application process at or about the beginning of the school year. East Chicago Lighthouse Charter School was unable to provide support for the eligibility determinations for 2 of the 10 students selected for testing.

Response: Procedures have been reviewed with school personnel and applications for those students not on the direct certification list have been completed for the FY2020 school year.

School Lunch Reporting

In testing the November 2018 meal claim for Gary Lighthouse Charter School it was determined that the claim submitted for federal reimbursement did not agree with the supporting documents. It is recommended that LANWI contact the Indiana Department of Education to determine if discrepancies noted require reimbursement to the state.

Response: All school personal were retrained on the Indiana School Lunch Program. Lunch monitors have been hired at all Gary locations to ensure counts are accurate. All counts are uploaded to a drive to be review by the Regional Operations Director before they are summited to the CNP website.

Ticket Sales

The designated charter school employee shall be responsible for the proper accounting for all tickets and must keep a record of the number purchased, the number issued for sale, and the number returned. In testing ticket sales, Gary Lighthouse Charter School was unable to provide tickets for 1 of 3 events selected.

Response: Procedures have been reviewed with school personnel and all deposit reports are reviewed by the Regional Operations Director and LHA finance with in 24 hours of submission.

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Minimum Internal Control Standards

Per review and discussion with school personnel, it was determined that LANWI was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

> Response: Internal control standards will be formally adopted by the school's governing board. Personnel will be identified and given the appropriate training in FY2020.

Sincerely,

Brent Elliott

Brent Elliott
Controller

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NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Northern Rush County Schools, Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Rush County Schools, Incorporated d/b/a Mays Community Academy, which comprise the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities and change in net assets (deficiency), 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 Northern Rush County Schools, Incorporated d/b/a Mays Community Academy as of June 30, 2019 and 2018, and the changes in its net assets (deficiency), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Indianapolis, Indiana
January 30, 2020

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 146,442	$ 68,016
Grants receivable	94,285	-
Total current assets	240,727	68,016
PROPERTY AND EQUIPMENT		
Land	88,400	88,400
Building and improvements	552,475	512,642
Furniture and equipment	223,468	212,108
Software and textbooks	90,082	80,254
Vehicles	5,000	5,000
Less: accumulated depreciation	(216,415)	(160,391)
Property and equipment, net	743,010	738,013
OTHER ASSETS		
Security deposit	3,900	3,900
TOTAL ASSETS	$ 987,637	$ 809,929
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES		
Lines of credit	$ 238,847	$ -
Current portion of notes payable	69,739	180,958
Accounts payable and accrued expenses	130,230	201,566
Refundable advance	-	29,475
Short-term financing	-	101,000
Total current liabilities	438,816	512,999
NOTES PAYABLE, NET OF CURRENT PORTION	412,901	318,750
Total liabilities	851,717	831,749
NET ASSETS (DEFICIENCY), WITHOUT DONOR RESTRICTIONS	135,920	(21,820)
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	$ 987,637	$ 809,929

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

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED

d/b/a MAYS COMMUNITY ACADEMY

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 1,717,328	$ 1,452,050
Grant revenue	456,069	326,072
Student fees	21,347	35,635
Contributions	51,589	54,930
Other income	44,519	65,456
Total revenue and support	2,290,852	1,934,143
EXPENSES		
Program services	1,638,724	1,546,962
Management and general	494,388	486,812
Total expenses	2,133,112	2,033,774
CHANGE IN NET ASSETS	157,740	(99,631)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	(21,820)	77,811
NET ASSETS (DEFICIENCY), END OF YEAR	$ 135,920	$ (21,820)

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 735,163	$ 261,846	$ 997,009	$ 739,218	$ 224,163	$ 963,381
Employee benefits	324,968	64,102	389,070	240,990	48,066	289,056
Staff development	34,700	-	34,700	1,020	-	1,020
Professional services	39,148	72,815	111,963	47,426	96,900	144,326
Repairs and maintenance	-	19,562	19,562	-	37,237	37,237
Authorizer oversight fees	-	34,039	34,039	-	28,632	28,632
Food costs	77,218	-	77,218	83,023	-	83,023
Transportation	235,567	325	235,892	224,614	193	224,807
Information technology	12,578	-	12,578	32,056	-	32,056
Advertising	-	1,372	1,372	-	367	367
Classroom, kitchen, and office supplies	50,194	7,439	57,633	48,990	7,782	56,772
Occupancy	65,558	-	65,558	62,802	-	62,802
Depreciation	56,024	-	56,024	58,386	-	58,386
Interest	-	18,516	18,516	-	12,165	12,165
Insurance	2,500	-	2,500	2,619	-	2,619
Other	5,106	14,372	19,478	5,818	31,307	37,125
Total functional expenses	$ 1,638,724	$ 494,388	$ 2,133,112	$ 1,546,962	$ 486,812	$ 2,033,774

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets (deficiency)	$ 157,740	$ (99,631)
Adjustments to reconcile change in net assets (deficiency)		
to net cash provided by operating activities:		
Depreciation	56,024	58,386
Change in certain assets and liabilities:		
Grants receivable	(94,285)	14,614
Accounts payable and accrued expenses	(71,336)	46,244
Refundable advance	(29,475)	-
Net cash provided by operating activities	18,668	19,613
INVESTING ACTIVITIES		
Purchases of property and equipment	(61,021)	(8,480)
FINANCING ACTIVITIES		
Proceeds from short-term financing	100,000	559,000
Principal payments on short-term financing	(201,000)	(458,000)
Proceeds from (repayments of) lines of credit, net	238,847	(150,000)
Proceeds from notes payable	50,000	138,458
Repayments of notes payable	(67,068)	(42,500)
Net cash provided by financing activities	120,779	46,958
NET CHANGE IN CASH	78,426	58,091
CASH, BEGINNING OF YEAR	68,016	9,925
CASH, END OF YEAR	$ 146,442	$ 68,016

SUPPLEMENTAL INFORMATION

Cash paid for interest	$ 18,516	$ 12,165

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Northern Rush County Schools, Incorporated d/b/a Mays Community Academy (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School is sponsored by Ball State University and operates a public charter school established under Indiana Code 20-24. The School served approximately 220 and 180 students during the years ended June 30, 2019 and 2018, respectively, in grades kindergarten through seven.

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 and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14. Net assets as of June 30, 2019 and 2018 are without donor restrictions.

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 and 2018.

Grants Receivable – Grants receivable relate primarily to activities funded under federal 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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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:

Building and improvements	7 to 20 years
Furniture and equipment	5 to 7 years
Software and textbooks	3 to 5 years
Vehicles	5 years

Taxes on Income – Northern Rush County Schools, Incorporated 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 January 30, 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 - REFUNDABLE ADVANCE

The School has been awarded grants to provide educational instruction that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. The School had refundable grant advances in excess of expenditures of $29,475 as of June 30, 2018. There were no refundable grant advances as of June 30, 2019.

NOTE 3 - LINES OF CREDIT

During the year ended June 30, 2019, the School entered into two line of credit arrangements with FCN Bank. The first line of credit has a $300,000 borrowing capacity and incurred interest at 6.5% per annum, maturing October 2019. This was extended to July 2020 with an interest rate of 6.75%. The second line of credit has a $120,000 borrowing capacity and incurred interest at 6.5% per annum, maturing August 2019. This was extended to July 2020 with an interest rate of 7%. The balance of the lines of credit as of June 30, 2019 was $238,847.

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2019	2018
Two notes payable to CentreBank with substantially identical terms; payable in monthly installments of $2,822 total including interest at 5.50% per annum, secured by all School assets. The remaining unpaid portion was due upon maturity in June 2019. These were refinanced in July 2019.	$ 118,133	$ 138,458
Note payable to Indiana State Board of Education, payable $21,250 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, maturing in July 2026.	318,750	361,250
Note payable to FCN Bank payable in one payment (June 2019) plus interest at 7.00% per annum. This was refinanced in July 2019.	45,757	-
	482,640	499,708
Less: current portion	(69,739)	(180,958)
Long-term portion	$ 412,901	$ 318,750

On July 19, 2019, the School entered into a note payable arrangement with FCN Bank for $169,553, the proceeds of which were used to pay off the two CentreBank notes and FCN Bank note payable. The note calls for monthly payments of $3,298, including interest at 6.25%. The note matures July 2024.

Principal maturities of long-term notes payable (after consideration of the July 2019 refinancing) are as follows for the years ending June 30:

2020	$ 69,739
2021	74,088
2022	76,107
2023	78,269
2024	80,568
Thereafter	103,869
	$ 482,640

NOTE 5 - SHORT-TERM FINANCING

From time to time throughout the years ended June 30, 2019 and 2018, the School utilized short-term note payable financing from members of the community to meet cash flow needs. The average interest rate on the short-term notes payable was 8%. The School borrowed and repaid \$100,000 and \$201,000, respectively, during the year ended June 30, 2019 and paid \$3,809 in interest thereon. The School borrowed and repaid \$559,000 and \$458,000, respectively, during the year ended June 30, 2018 and paid \$977 in interest thereon.

NOTE 6 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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. For the year ended June 30, 2019, the School contributed 10.5% of compensation for eligible teaching personnel to TRF and 4% for other employees to PERF. For the year ended June 30, 2018, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 11.2% for other employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2018 (the latest year reported), TRF and PERF were more than 80% funded. The School's total retirement expense was \$67,425 and \$51,732 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were \$34,039 and \$28,632 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2023 and is renewable thereafter by mutual consent.

The School contracted with Indiana Charters LLC, a for-profit organization incorporated in the State of Indiana, to perform data management, financial, administrative, and general operational support services. Expenses under this contract were \$38,834 and \$31,666 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Rush 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.

Financial instruments consist principally of receivables from the State of Indiana. At June 30, 2019, substantially all of the receivable balance was due from the State of Indiana. There was no balance in grants receivable subject to credit risk as of June 30, 2018. In addition, bank deposits are maintained primarily at CentreBank, First Financial, and FCN Bank and are insured up to the FDIC insurance limit.

NOTE 9 - 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 grants receivable, which totals $240,727, all of which are available to meet cash needs for general expenditures within a 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. In addition, the School has $181,153 available on its lines of credit.

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 (deficiency). 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.

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
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 Northern Rush County Schools, Incorporated
d/b/a Mays Community Academy

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.*

SUPPLEMENTAL AUDIT REPORT

OF

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY

RUSH COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
RUSH COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Board President	Nansi Custer	07/01/18 – 06/30/19
Chief Executive Officer	Carissa Williams	07/01/18 – 06/30/19
Principal	Shannon New	07/01/18 – 06/30/19

Donovan CPAs

The Board of Directors
Northern Rush County Schools Incorporated

We have audited the financial statements of Northern Rush County Schools Incorporated d/b/a Mays Community Academy, (the "School") as of and for the year ended June 30, 2019, and have issued our report thereon dated January 30, 2020. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
January 31, 2020

RECEIPTS AND DEPOSITS

The School issues receipts for various fees such as lunch fees, textbook fees, and after school program fees. Of the forty receipts we tested, nine receipts were not deposited timely, three receipts were not completely filled out, and three receipts were not able to be traced back to the date of the deposit.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

The form is to be prenumbered by the printing supplier in duplicate, five receipts to the page. A receipt must be written on the form each time any money is received by the charter school regardless of whether it is in the form of cash, check, money order, bank card/credit card, EFT (all on which must be indicated as payment type and amount) or other negotiable instrument. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 2)

TRAVEL REIMBURSEMENTS

We examined a sample of three reimbursement claims that occurred in the audit period. The reimbursements included travel and parking reimbursements. The School was not able to provide support for one selection.

If the charter school authorizes travel advances, it must have a policy identifying the individual who may receive an advance, the use and purpose of the advance, the information that is required to account for the advance, a reconciliation of actual expenses (upon return for the trip) versus amounts advanced, and the refunding of any excess money that was in advanced in a timely manner. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

PAYROLL COMPLIANCE

We tested a sample of fifteen employees out of forty-three total employees. We noted that the School did not have completed contracts for three out of fifteen employees tested.

The charter school shall maintain adequate supporting documentation for payroll to ensure that payments are made only for services rendered. Supporting documentation, such as timecards, must show signs of supervisory approval. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

SCHOOL LUNCH ELIGIBILITY

The School claims reimbursement for school lunch and for textbooks. In two out of three months tested, the School claimed fewer meals than actual meals served.

Charter schools should have internal controls in place to provide reasonable assurance that their goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

FINANCIAL REPORTING

We reviewed the Form 9s submitted by the School for semi-annual periods July 1, 2018 to December 31, 2018 and January 1, 2019 to June 30, 2019. Activity reported in individual funds did not reflect actual activity in those funds in line with the School's financial records. Also, the CSP fund activity was not reported on the Form 9s.

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance my require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
RUSH COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on January 29, 2020 with Carissa Williams (Director/Chief Executive Officer) and Nansi Custer (Board President). The Official Response has been made a part of this report and may be found on page 6.

MAYS
Community Academy

January 31, 2020

RESPONSE TO SBOA REPORT

Receipts and Deposits – New staff has been hired and new processes in place for both receiving funds in the building as well as making deposits at the bank. The new processes and procedures that have been implemented will ensure more accurate and timely receipts and deposits.

Travel Reimbursements – A new position of Chief of Staff has been added in the building. This position is responsible for maintaining all employee records as well as reimbursement requests. The addition of this additional staff and procedures put in place will ensure collection and retention of proper travel receipts and reimbursements.

Payroll Compliance – All employees are currently given employment agreements. All agreements are being retained by the new position hired for the 2019-2020 school year. These records are being collected and maintained by the Chief of Staff.

School Lunch Eligibility – Mays Community Academy became eligible for a different lunch program for the school year beginning July 1, 2018. The changes in lunch programs created a change in required record keeping. The transition from the old system to the new system created some confusion in the numbers to report in the SIS being used. Working with the representative from the state with the lunch program has created new procedures which will ensure correct reporting for the 2019-2020 school year and moving forward.

Financial Reporting – Mays Community Academy has transitioned to a CPA for monthly preparation of the required financial reports. The same CPA will be preparing and submitting the Form 9. It is our feeling that by utilizing the same CPA for both the financial statements and the Form 9 will eleviate any discrepancy moving forward.

Krissi Williams, CEO

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NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Neighbors' Educational Opportunities, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Neighbors' Educational Opportunities, 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 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 Neighbors' Educational Opportunities, Inc. as of June 30, 2019 and 2018, 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

Donovan

Indianapolis, Indiana
December 16, 2019

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 63,701	$ 7,399
Grants receivable	67,487	41,398
Other receivables	44,612	15,904
Prepaid expenses	-	4,120
Total current assets	175,800	68,821
PROPERTY AND EQUIPMENT		
Land	835,000	835,000
Building and improvements	3,957,399	3,957,399
Furniture and equipment	442,499	442,499
Less: accumulated depreciation	(615,451)	(438,605)
Property and equipment, net	4,619,447	4,796,293
OTHER ASSETS		
Security deposit	11,910	11,910
TOTAL ASSETS	$ 4,807,157	$ 4,877,024
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 317,737	$ 251,694
Accounts payable and accrued expenses	157,646	232,705
Short-term note payable	2,882	8,725
Total current liabilities	478,265	493,124
LONG-TERM LIABILITIES		
Notes payable, net of current portion	3,900,712	4,154,112
Total liabilities	4,378,977	4,647,236
NET ASSETS, WITHOUT DONOR RESTRICTIONS	428,180	229,788
TOTAL LIABILITIES AND NET ASSETS	$ 4,807,157	$ 4,877,024

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 1,661,092	$ 1,367,068
Grant revenue	821,684	805,645
Student fees	41,419	40,089
Rental income	57,451	34,520
Contributions	26,510	24,468
Interest income	-	1,136
Other income	27,571	7,640
Total revenue and support	2,635,727	2,280,566
EXPENSES		
Program services	1,769,824	1,858,168
Management and general	667,511	690,468
Total expenses	2,437,335	2,548,636
CHANGE IN NET ASSETS	198,392	(268,070)
NET ASSETS, BEGINNING OF YEAR	229,788	497,858
NET ASSETS, END OF YEAR	$ 428,180	$ 229,788

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

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 952,449	$ 318,703	$ 1,271,152	$ 1,042,331	$ 381,209	$ 1,423,540
Employee benefits	153,967	72,808	226,775	180,140	68,810	248,950
Staff development	5,546	-	5,546	8,508	-	8,508
Authorizer oversight fees	-	35,748	35,748	-	25,706	25,706
Educational content	38,379	-	38,379	29,462	-	29,462
Food costs	50,850	-	50,850	42,988	-	42,988
Equipment	31,946	-	31,946	12,559	-	12,559
Classroom and office supplies	33,536	6,799	40,335	50,673	2,133	52,806
Professional services	104,563	45,239	149,802	77,405	12,772	90,177
Occupancy	120,453	14,563	135,016	145,643	9,821	155,464
Contracted IT services	96,768	-	96,768	63,225	-	63,225
Travel	3,072	709	3,781	2,968	3,375	6,343
Insurance	-	20,475	20,475	-	20,700	20,700
Advertising	-	397	397	-	10,032	10,032
Depreciation	176,846	-	176,846	191,379	-	191,379
Interest	-	146,813	146,813	-	147,852	147,852
Other	1,449	5,257	6,706	10,887	8,058	18,945
Total functional expenses	$ 1,769,824	$ 667,511	$ 2,437,335	$ 1,858,168	$ 690,468	$ 2,548,636

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

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 198,392	$ (268,070)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	176,846	191,379
Change in certain assets and liabilities:		
Grants receivable	(26,089)	117,660
Other receivables	(28,708)	(2,580)
Prepaid expenses	4,120	8,354
Accounts payable and accrued expenses	(75,059)	59,092
Net cash provided by operating activities	249,502	105,835
FINANCING ACTIVITIES		
Proceeds from short-term notes payable	-	50,000
Repayments of short-term notes payable	(5,843)	(41,275)
Principal payments of notes payable	(187,357)	(146,136)
Net cash used in financing activities	(193,200)	(137,411)
NET CHANGE IN CASH	56,302	(31,576)
CASH, BEGINNING OF YEAR	7,399	38,975
CASH, END OF YEAR	$ 63,701	$ 7,399
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 146,813	$ 147,852

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Neighbors' Educational Opportunities, Inc. (the "Corporation") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The Corporation operates a public alternative charter high school established under Indiana Code 20-24 that served approximately 225 students during 2018-2019. The Corporation also operates a comprehensive adult education program and an official testing site for the State of Indiana's High School Equivalency diploma.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the Corporation 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 and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14. Net assets as of June 30, 2019 and 2018 were without donor restrictions.

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 Corporation 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 Corporation's revenue is the product of cost reimbursement grants. Accordingly, the Corporation 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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The Corporation 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 included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases are charged to expense as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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:

Building and improvements	37.5 years
Furniture and equipment	3 to 7 years

Taxes on Income – Neighbors' Educational Opportunities, Inc. 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 Corporation 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 Corporation 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 Corporation has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2015 are open to audit for both federal and state purposes.

Subsequent Events – The Corporation evaluated subsequent events through December 16, 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 - LEASES

The Corporation leases equipment under operating lease agreements that expire in 2023 and 2025. Expense under these operating leases was $13,345 and $18,930 for the years ended June 30, 2019 and 2018, respectively.

A schedule of minimum lease obligations are as follows for the years ending June 30:

2020	$	20,520
2021		27,538
2022		27,538
2023		17,824
2024		12,967
Thereafter		2,161

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2019	2018
Note payable to Indiana State Board of Education, payable $57,633 semi-annually (January 1 and July 1) plus interest at 1.00% per annum. Principal and interest were deferred during fiscal year 2019. No interest was charged or paid.	$ 1,037,389	$ 1,037,389
Note payable to 1st Source Bank, payable in monthly installments $27,789 including interest at 4.25% per annum, with a balloon payment due May 2022, secured by mortgage on Corporation facilities	3,181,060	3,368,417
	4,218,449	4,405,806
Less: current portion	(317,737)	(251,694)
Long-term portion	$ 3,900,712	$ 4,154,112

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

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

2020	$ 317,737
2021	326,511
2022	2,875,903
2023	115,265
2024	115,265
Thereafter	467,768
	$ 4,218,449

NOTE 4 - RETIREMENT PLAN

The Corporation maintains a SIMPLE IRA retirement plan with Oppenheimer Funds for the benefit of its employees. Substantially all full-time employees are eligible to participate. Under the plan, the Corporation matches up to 3% of each participant's compensation for the plan year. Retirement plan expense was $11,534 and $17,754 for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 - COMMITMENTS

The charter high school operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the Corporation has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $35,748 and $25,706 for the years ended June 30, 2019 and 2018, respectively. The charter will remain in effect until June 30, 2022 and is renewable thereafter by mutual consent.

NOTE 6 - RISKS AND UNCERTAINTIES

The Corporation provides educational instruction services to residents of Porter 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 Corporation. Additionally, the Corporation is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Corporation.

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of receivables from Center of Workforce Innovations, Inc. and the State of Indiana.

NOTE 7 - LIQUIDITY

Under ASU 2016-14, the Corporation 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 Corporation's financial assets include cash, grants receivable, and other receivables. Financial assets at June 30, 2019 total $175,800, all of which are available to meet cash needs for general expenditures within a year.

From time to time, the Corporation receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the Corporation 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 Corporation'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 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 assets. Management of the Corporation 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.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, 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 Corporation as listed below:

Supplemental Audit Report of Neighbors' Educational Opportunities, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

PORTER COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
PORTER COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
President of Board of Directors	Deborah Birch	07/01/18 – 06/30/19
Executive Director	Rebecca Reiner	07/01/18 – 06/30/19
Business Manager	Jennifer Jennings	07/01/18 – 06/30/19

The Board of Directors
Neighbors' Educational Opportunities, Inc.

We have audited the financial statements of Neighbors' Educational Opportunities, Inc. (the "Corporation") as of and for the year ended June 30, 2019, and have issued our report thereon dated December 16, 2019. As part of our audit, we tested the Corporation's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the Corporation was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 16, 2019

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

REQUIRED REPORTS

We reviewed the Form 9 Biannual Financial Report submissions for the 2019 fiscal year. The balance of cash per the Form 9 at June 30, 2019 did not accurately reflect the amount of cash the Corporation had available per its financial records. The Form 9 was overstated by $379,838.

Charter schools are required to submit a Form 9 Biannual Financial Report two times per year during the months of January and July. The financial information in the Form 9 shall reflect cash basis information. The January report must include previous calendar year financial and other required information for the period of July 1 to December 31 financial data. The July report must include current calendar year financial and other required information for the period of January 1 to June 30. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 9)

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

CREDIT CARD USAGE

We selected five credit card statements to test. The Corporation had late payments on three of the five we selected.

Payment shall not be made on the basis of a statement or a credit card slip only. Procedures for payments shall be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee is the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

NEIGHBORS' EDUCATION OPPORTUNITIES, INC.
PORTER COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on December 16, 2019 with Marie Robinson (Board Treasurer), Rebecca Reiner (Executive Director), Jennifer Jennings (Business Manager), and Allan Gabriele (Outside Consultant). The Official Response has been made a part of this report and may be found on page 5.

RESPONSE TO SUPPLEMENTAL AUDIT
OF
NEIGHBOR'S EDUCATIONAL OPPORTUNITIES, INC
JULY 1, 2018 TO June 30, 2019

December 17, 2019

The Supplemental Audit Report for Neighbor's Educational Opportunities, Inc for our year ended June 30, 2019 contained results and comments in two areas: Required Reports and Credit Card Usage.

The Required Reports finding noted the discrepancy between cash reported on the financial statements reflected in the general ledger and the Form 9 Biannual Financial Report, the report required to be filed by charter schools two times per year or every six months. We acknowledge the discrepancy which was due to unusual turnover in the accounting function, a switch in accounting systems during the year, and a change in payroll systems and providers, resulting in a Form 9 required submission before proper reconciliations could be done. These reconciliations are now done on a regular basis by permanent staff that will prevent a future submission with a discrepancy in cash balances.

The audit required testing of five credit card statements, on which three had late payment fees. This was due to the same factors that caused the Form 9 discrepancy. The credit card policy for proper documentation and timely payment is now being enforced and it is our goal to eliminate all late payment fees.

Rebecca Reiner

Rebecca Reiner, Executive Director

Neighbors Educational Opportunities
New Vistas High School and NEO Adult Education
5201 US Highway 6 Portage, IN 46368
219-850-4448 www.neoadulted.org

OPTIONS CHARTER SCHOOL - CARMEL, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan
CPAs

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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Options Charter School - Carmel, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Options Charter School - Carmel, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Options Charter School - Carmel, Inc. as of June 30, 2019 and 2018, 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

Indianapolis, Indiana
October 11, 2019

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 883,289	$ 847,000
Accounts receivable	23,516	3,188
Current portion of note receivable	75,000	75,000
Prepaid expenses	21,022	16,027
Total current assets	1,002,827	941,215
PROPERTY AND EQUIPMENT		
Leasehold improvements	266,995	246,308
Furniture and equipment	526,810	498,125
Less: accumulated depreciation	(593,123)	(562,765)
Property and equipment, net	200,682	181,668
OTHER ASSETS		
Note receivable, net of current portion	487,500	562,500
TOTAL ASSETS	$ 1,691,009	$ 1,685,383
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of note payable	$ 100,000	$ 100,000
Accounts payable and accrued expenses	104,512	89,519
Due to Options Charter School - Noblesville, Inc.	1,331	16,904
Refundable advance	2,496	2,940
Total current liabilities	208,339	209,363
NOTE PAYABLE, NET OF CURRENT PORTION	650,000	750,000
Total liabilities	858,339	959,363
NET ASSETS, WITHOUT DONOR RESTRICTIONS	832,670	726,020
TOTAL LIABILITIES AND NET ASSETS	$ 1,691,009	$ 1,685,383

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 1,449,512	$ 1,231,114
Grant revenue	382,073	284,819
Student fees	19,933	14,690
Contribution from Options in Education Foundation, Inc.	12,738	21,782
Other income	7,538	10,577
Total revenue and support	1,871,794	1,562,982
EXPENSES		
Program services	1,172,094	1,016,223
Management and general	593,050	528,021
Total expenses	1,765,144	1,544,244
CHANGE IN NET ASSETS	106,650	18,738
NET ASSETS, BEGINNING OF YEAR	726,020	707,282
NET ASSETS, END OF YEAR	$ 832,670	$ 726,020

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 559,868	$ 312,573	$ 872,441	$ 465,011	$ 293,821	$ 758,832
Employee benefits	236,962	132,295	369,257	188,667	119,211	307,878
Occupancy	214,674	29,274	243,948	207,846	28,343	236,189
Equipment	45,676	-	45,676	40,975	-	40,975
Professional services	36,643	13,716	50,359	19,476	8,959	28,435
Depreciation	26,715	3,643	30,358	21,505	2,933	24,438
Classroom and office supplies	23,530	13,136	36,666	25,415	16,059	41,474
Authorizer oversight fees	-	32,594	32,594	-	28,316	28,316
Food service	5,855	-	5,855	12,087	-	12,087
Insurance	-	22,212	22,212	-	14,896	14,896
Transportation	1,828	1,020	2,848	5,543	3,502	9,045
Interest	-	7,750	7,750	-	8,750	8,750
Foundation expenses	12,738	-	12,738	21,782	-	21,782
Other	7,605	24,837	32,442	7,916	3,231	11,147
Total functional expenses	$ 1,172,094	$ 593,050	$ 1,765,144	$ 1,016,223	$ 528,021	$ 1,544,244

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 106,650	$ 18,738
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,358	24,438
Change in certain assets and liabilities:		
Accounts receivable	(20,328)	375
Prepaid expenses	(4,995)	2,259
Accounts payable and accrued expenses	14,993	18,394
Due to Options Charter School - Noblesville, Inc.	(15,573)	-
Refundable advance	(444)	(2,872)
Net cash provided by operating activities	110,661	61,332
INVESTING ACTIVITIES		
Purchases of property and equipment	(49,372)	(16,992)
FINANCING ACTIVITIES		
Principal paid on note payable	(100,000)	(100,000)
Principal received from Options Charter School - Noblesville, Inc.	75,000	75,000
Net cash used in financing activities	(25,000)	(25,000)
NET CHANGE IN CASH	36,289	19,340
CASH, BEGINNING OF YEAR	847,000	827,660
CASH, END OF YEAR	$ 883,289	$ 847,000
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 8,250	$ 9,250

OPTIONS CHARTER SCHOOL - CARMEL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Options Charter School - Carmel, 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 Ball State University. The School serves approximately 200 students in grades nine to twelve by providing an alternative to traditional high school programs.

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. All net assets as of June 30, 2019 and 2018 were without donor restrictions.

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. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Taxes on Income – Options Charter School - Carmel, Inc. 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. Tax years ended after 2015 are open to audit for both federal and state purposes.

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, 2019 and 2018.

Accounts Receivable – Accounts receivable relate primarily to activities funded under federal grants 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, minor replacement costs, and equipment purchases with a unit cost of less than $1,500 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 to 40 years
Furniture and equipment	3 to 7 years

Subsequent Events – The School evaluated subsequent events through October 11, 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 - LINE OF CREDIT

The School has a $75,000 revolving line of credit with First Merchants Bank. Drawings against the line of credit bear interest at 2.25% above the lender’s prime rate (at total of 7.75% at June 30, 2019) and are secured by all school assets. There was no balance outstanding under the line of credit as of June 30, 2019 or 2018.

NOTE 3 - REFUNDABLE ADVANCE

The School was awarded a grant from the Lilly Foundation, Inc. to establish comprehensive counseling services for students. The unused portion of the grant as of June 30, 2019 and 2018 was $2,496 and $2,940, respectively, and was shown as a refundable advance on the statements of financial position.

NOTE 4 - NOTE RECEIVABLE AND NOTE PAYABLE

During 2016, the School obtained a $1,000,000 note payable from the Indiana State Board of Education. The School immediately entered into an agreement to loan $750,000 of the proceeds to Options Charter School - Noblesville, Inc. ("Options - Noblesville"). The repayment terms with Options - Noblesville mirror the terms with the Indiana State Board of Education.

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

		2019		2018
Note payable to the Indiana State Board of Education, payable $50,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum.	$	750,000	$	850,000
Less: current portion		(100,000)		(100,000)
Long-term portion	$	650,000	$	750,000

The note payable to the Indiana 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 note receivable consisted of the following as of June 30:

		2019		2018
Note receivable from Options - Noblesville, receivable $37,500 semi-annually (January 1 and July 1) plus interest at 1.00% per annum.	$	562,500	$	637,500
Less: current portion		(75,000)		(75,000)
Long-term portion	$	487,500	$	562,500

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

		Note Payable		Note Receivable		Net Payable
2020	$	100,000	$	75,000	$	25,000
2021		100,000		75,000		25,000
2022		100,000		75,000		25,000
2023		100,000		75,000		25,000
2024		100,000		75,000		25,000
Thereafter		250,000		187,500		62,500
	$	750,000	$	562,500	$	187,500

NOTE 5 - LEASES

The School leases its facility and certain items of office equipment under operating leases. The facility lease expires June 30, 2021 and requires monthly payments of $11,852 and $12,266 for the years ending June 30, 2020 and 2021, respectively. The School is also responsible for any improvements and its proportionate share of real estate taxes and operating expenses ("CAM charges"). Expense under operating leases, including CAM charges, was $192,172 and $190,969 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease obligations (excluding CAM charges) are as follows for the years ended June 30:

2020	$	147,195
2021		152,173
2022		4,976
2023		415

NOTE 6 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $32,594 and $28,316 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

NOTE 7 - RELATED PARTIES

The School is related to Options - Noblesville through a common Board of Directors. Both schools advance amounts to each other as needed to meet cash flow requirements. The net balance owed to Options - Noblesville was $1,331 and $16,904 as of June 30, 2019 and 2018, respectively. The School is also contingently liable as a guarantor with respect to a $75,000 line of credit maintained by Options - Noblesville. At June 30, 2019 and 2018, there was no balance outstanding under the line of credit. In addition, the School has a note receivable from Options - Noblesville as described in Note 4.

The School is affiliated with Options in Education Foundation, Inc. (the "Foundation") through certain overlapping board members. The Foundation also solicits support and assistance to benefit the School. The School received financial assistance from the Foundation of $12,738 and $21,782 during the years ended June 30, 2019 and 2018, respectively.

The School also employs several members of the president's family. The School paid these individuals $59,039 and $53,100 during the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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 plans, the School contributed 10.5% of compensation for electing teaching faculty to TRF and 14.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2018 (the latest year reported), both TRF and PERF were more than 80% funded.

TRF eligible employees can also elect to participate in a School-sponsored 403(B) plan in lieu of the State of Indiana – INPRS plan. The School contributes 10.5% of participant compensation to the 403(b) plan.

Full-time employees may also choose to participate in a voluntary salary reduction 403(b) plan. The School will match the employee's contribution up to 1% of their gross wages.

Retirement plan expense was $102,813 and $95,728 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Hamilton 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at First Merchants Bank are insured up to the FDIC insurance limit of $250,000. Funds held at this financial institution exceeded the FDIC insurance limit as of June 30, 2019 and 2018.

NOTE 10 - 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, accounts receivable, and the note receivable. Financial assets at June 30, 2019 total $1,469,305, of which $981,805 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. The School also has a line of credit available with a credit limit of $75,000, all of which is available to meet general expenditures within one year of the date of the statement of financial position.

NOTE 11 - 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. Certain expenses have been allocated between program services and management and general expenses. Employee benefits, transportation, office supplies, and other expenses are allocated based on the percentage allocation of salaries between program services and management and general. Occupancy and depreciation expenses are allocated based on the percentage allocation of square footage used for program services and management and general activities.

OPTIONS CHARTER SCHOOL - CARMEL, 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 Options Charter School - Carmel, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

OPTIONS CHARTER SCHOOL - CARMEL, INC.

HAMILTON COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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OPTIONS CHARTER SCHOOL - CARMEL, INC.
HAMILTON COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Chairman of Board of Directors	Stacy Segal	07/01/18 – 06/30/19
Treasurer of Board of Directors	Will Mattingly	07/01/18 – 06/30/19
School President and CEO	Mike Gustin	07/01/18 – 06/30/19
School Treasurer	Sherrie Bly	07/01/18 – 06/30/19

The Board of Directors
Options Charter School - Carmel, Inc.

We have audited the financial statements of Options Charter School - Carmel, Inc. (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated October 11, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
October 11, 2019

OPTIONS CHARTER SCHOOL - CARMEL, INC.
HAMILTON COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

RECEIPTS AND DEPOSITS

We tested twenty-five cash receipts from the School's receipt books. Fourteen of the receipts tested were not deposited timely.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

PAYROLL COMPLIANCE

During the year, the School paid suspension pay to one employee without obtaining a written opinion from an attorney.

Suspension with pay must be supported by the written opinion of the attorney for the charter school stating that the suspension is in accordance with all federal laws and regulations, and state laws, as applicable. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

SCHOOL MEAL ELIGIBILITY

We tested fifteen students to determine if the School correctly determined their eligibility. The School was unable to provide adequate documentation for two students.

The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. [7 CFR, part 245.6(c)]

The governing board is charged with the duty to preserve, keep, maintain, or file all the official records of the political subdivision pursuant to IC 5-15-1-1.

A public record is defined as all documentation of the informational, communicative or decision-making processes of the political subdivision in connection with the transaction of public business or governmental functions, which documentation is created, received, retained, maintained, or filed by the political subdivision as evidence of its activities or because of the information value of the data in the documentation, and which is generated on paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics. [IC 5-15-5.1-1] (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 12)

OPTIONS CHARTER SCHOOL - CARMEL, INC.
HAMILTON COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on October 11, 2019 with Will Mattingly (Board Treasurer); Mike Gustin (School President and CEO); Jacob Brandau (School CFO) and Sherrie Bly (School Treasurer). The Official Response has been made a part of this report and may be found on pages 5 and 6.

Date: October 10th, 2019

To: Donovan CPAs

From Jacob Brandau, Chief Financial Officer

Reason: **Audit Response for Options Charter School- Carmel**

Issue One: RECEIPTS AND DEPOSITS

We tested twenty-five cash receipts from the School's receipt books. Fourteen of the receipts tested were not deposited timely.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Issue One: Response

This issue was due to the Options Carmel administrative assistant dealing with the large amount of student fees that came in on our back-to-school night. The back-to-school night ended late on a Friday and the money and receipts were put in the safe. This money then did not get processed to the Treasurer until the next week. This issue will be resolved next year by instituting that the Principal is responsible for depositing the money on the evening of back to school night. Generally, our expectation is that all deposits are made on the same business day.

Issue Two: PAYROLL COMPLIANCE

During the year, the School paid suspension pay to one employee without obtaining a written opinion from an attorney.

Suspension with pay must be supported by the written opinion of the attorney for the charter school stating that the suspension is in accordance with all federal laws and regulations and state laws, as applicable. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Issue Two: Response

We will be obtaining a written opinion from our attorney for any severance pay in the future. This issue was just on oversight on our part in the severance process.

9945 Cumberland Pointe Blvd. | Noblesville, IN 46060 | *phone:* 317.773.8659
530 West Carmel Dr. | Carmel, IN 46032 | *phone:* 317.815.2098
www.optionsschools.org

Issue Three: SCHOOL MEAL ELIGIBILITY

We tested fifteen students to determine if the School correctly determined their eligibility. The School was unable to provide adequate documentation for two students.

The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. [7 CFR, part 245.6(c)]

The governing board is charged with the duty to preserve, keep, maintain, or file all the official records of the political subdivision pursuant to IC 5-15-1-1.

A public record is defined as all documentation of the informational, communicative or decision-making processes of the political subdivision in connection with the transaction of public business or governmental functions, which documentation is created, received, retained, maintained, or filed by the political subdivision as evidence of its activities or because of the information value of the data in the documentation, and which is generated on paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics. [IC 5-15-5.1-1] (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 12)

Issue Three: Response

This finding was due to an unverified case number and student that we did not have paperwork for. We have instituted a new process that will involve a letter to a parent verifying their case number if they have filled out a free or reduced eligibility form with a case number but does not show up on our direct certification list. This will add another layer of oversight for the free and reduced process.

Sincerely,

Jacob Brandau, Chief Financial Officer
Options Charter Schools

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OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Options Charter School - Noblesville, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Options Charter School - Noblesville, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, 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 Options Charter School - Noblesville, Inc. as of June 30, 2019 and 2018, 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

Indianapolis, Indiana
October 11, 2019

OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 1,135,490	$ 909,132
Due from Options Charter School - Carmel, Inc.	1,331	16,904
Prepaid expenses	22,536	16,293
Earnest money deposit on land purchase	15,000	-
Total current assets	1,174,357	942,329
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,205,436	2,192,612
Furniture and equipment	719,763	653,767
Less: accumulated depreciation	(780,992)	(694,972)
Property and equipment, net	2,144,207	2,151,407
TOTAL ASSETS	$ 3,318,564	$ 3,093,736
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 200,800	$ 200,800
Accounts payable and accrued expenses	136,724	105,531
Refundable advance	1,072	4,069
Total current liabilities	338,596	310,400
NOTES PAYABLE, NET OF CURRENT PORTION	1,305,204	1,506,004
Total liabilities	1,643,800	1,816,404
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,674,764	1,277,332
TOTAL LIABILITIES AND NET ASSETS	$ 3,318,564	$ 3,093,736

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

OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 2,750,694	$ 2,357,867
Grant revenue	616,306	487,006
Student fees	26,604	19,057
Contribution from Options in Education Foundation, Inc.	14,545	23,242
Other income	2,146	693
Total revenue and support	3,410,295	2,887,865
EXPENSES		
Program services	2,144,899	1,657,215
Management and general	867,964	714,444
Total expenses	3,012,863	2,371,659
CHANGE IN NET ASSETS	397,432	516,206
NET ASSETS, BEGINNING OF YEAR	1,277,332	761,126
NET ASSETS, END OF YEAR	$ 1,674,764	$ 1,277,332

OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 857,192	$ 485,849	$ 1,343,041	$ 686,545	$ 412,053	$ 1,098,598
Employee benefits	293,012	166,076	459,088	218,237	130,983	349,220
Hope Source expenses	629,326	-	629,326	450,613	-	450,613
Occupancy	89,911	15,125	105,036	84,539	14,222	98,761
Equipment	59,804	-	59,804	42,667	-	42,667
Professional services	44,825	32,616	77,441	25,516	11,244	36,760
Depreciation	73,633	12,387	86,020	65,089	10,950	76,039
Classroom and office supplies	39,169	22,201	61,370	34,640	20,791	55,431
Authorizer oversight fees	-	48,069	48,069	-	44,451	44,451
Food service	15,071	-	15,071	15,094	-	15,094
Insurance	-	23,426	23,426	-	14,094	14,094
Transportation	8,837	5,009	13,846	4,906	2,945	7,851
Interest	-	15,563	15,563	-	17,571	17,571
Foundation expenses	14,545	-	14,545	23,242	-	23,242
Other	19,574	41,643	61,217	6,127	35,140	41,267
Total functional expenses	$ 2,144,899	$ 867,964	$ 3,012,863	$ 1,657,215	$ 714,444	$ 2,371,659

OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 397,432	$ 516,206
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation	86,020	76,039
Changes in certain assets and liabilities:		
Due from Options Charter School - Carmel, Inc.	15,573	-
Prepaid expenses	(6,243)	3,313
Accounts payable and accrued expenses	31,193	22,410
Refundable advance	(2,997)	(5,481)
Net cash provided by operating activities	520,978	612,487
INVESTING ACTIVITIES		
Purchases of property and equipment	(78,820)	(169,701)
Earnest money deposit on land purchase	(15,000)	-
Net cash used in investing activities	(93,820)	(169,701)
FINANCING ACTIVITIES		
Principal paid on notes payable	(200,800)	(200,800)
NET CHANGE IN CASH	226,358	241,986
CASH, BEGINNING OF YEAR	909,132	667,146
CASH, END OF YEAR	$ 1,135,490	$ 909,132
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 16,568	$ 18,575

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Options Charter School - Noblesville, 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 Ball State University. The School serves approximately 295 students in grades six to twelve by providing an alternative to traditional middle and high school programs.

The School partners with The Hope Source to provide students with autism a hybrid treatment-education model of learning. The School provides education services to clientele of The Hope Source at The Hope Source's facility.

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. All net assets as of June 30, 2019 and 2018 were without donor restrictions.

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 generally 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. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Taxes on Income – Options Charter School - Noblesville, Inc. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, 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 ending after 2015 are open to audit for both federal and state purposes.

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 are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than $1,500 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:

Buildings and improvements	40 years
Furniture and equipment	3 to 7 years

Subsequent Events – The School evaluated subsequent events through October 11, 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 - LINE OF CREDIT

The School has a $75,000 revolving line of credit with First Merchants Bank. Drawings against the line of credit bear interest at 2.25% above the lender’s prime rate (a total of 7.75% at June 30, 2019) and are secured by all school assets. There was no balance outstanding under the line of credit as of June 30, 2019 or 2018.

NOTE 3 - REFUNDABLE ADVANCE

The School was awarded a grant from the Lilly Foundation, Inc. to establish comprehensive counseling services for students. The unused portion of the grant as of June 30, 2019 and 2018 was $1,072 and $4,069, respectively, and was shown as a refundable advance on the statements of financial position.

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

		2019		2018
Note payable to the Indiana State Board of Education, payable $62,900 semi-annually (January 1 and July 1) plus interest at 1.00% per annum	$	943,504	$	1,069,304
Note payable to Options Charter School - Carmel, Inc., payable $37,500 semi-annually (January 1 and July 1) plus interest at 1.00% per annum		562,500		637,500
		1,506,004		1,706,804
Less: current portion		(200,800)		(200,800)
Long-term portion	$	1,305,204	$	1,506,004

The note payable to the Indiana 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 note payable to Options Charter School - Carmel, Inc. ("Options - Carmel"), a related charter school, is also the result of the Common School Funds Charter School Innovation Fund Advancement program. Options - Carmel received a similar loan to the loan received by the School, and a portion of the loan was transferred to the School. The School has agreed to repay the loan following a similar payment schedule set by the Indiana State Board of Education.

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

2020	$	200,800
2021		200,800
2022		200,800
2023		200,800
2024		200,800
Thereafter		502,004
	$	1,506,004

NOTE 5 - LEASES

The School leases a facility and certain items of office equipment under operating leases. The facility lease requires monthly payments of $2,000 over a one-year term, beginning July 1, 2019. Expense under operating leases was $9,952 for both years ended June 30, 2019 and 2018.

Future minimum lease obligations are as follows for the years ended June 30:

2020	$	31,952
2021		9,952
2022		9,952
2023		829

NOTE 6 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $48,069 and $44,451 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2023, and is renewable thereafter by mutual consent.

The School entered into a purchase agreement in January 2019 to purchase 3.0 acres of land in Westfield, Indiana. The School deposited $15,000 of earnest money. The total purchase price of the land is $1,000,000 and closing is planned for October 2019. The School plans to build a new facility to house the charter school operated by Options - Carmel.

NOTE 7 - RELATED PARTIES

The School is related to Options – Carmel through a common Board of Directors. Both schools advance amounts to each other as needed to meet cash flow requirements. The net balance due from Options - Carmel was $1,331 and $16,904 as of June 30, 2019 and 2018, respectively. The School is also contingently liable as a guarantor with respect to a $75,000 line of credit maintained by Options - Carmel. At June 30, 2019 and 2018, there was no balance outstanding under the line of credit. In addition, the School has a note payable to Options - Carmel as described in Note 4.

The School is affiliated with Options in Education Foundation, Inc. (the “Foundation”) through certain overlapping board members. The Foundation also solicits support and assistance to benefit the School. The School received financial assistance from the Foundation of $14,545 and $23,242 during the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - RELATED PARTIES, Continued

During 2017, the School entered into a contract to perform remodeling services with a company related to the president of the School. The School paid the company $72,950 during the year ended June 30, 2018. No such payments were made in 2019. The School also employs several members of the president's family. The School paid these individuals $8,524 and $4,813 during the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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 plans, the School contributed 10.5% of compensation for electing teaching faculty to TRF and 14.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2018 (the latest year reported), both TRF and PERF were approximately more than 80% funded.

TRF eligible employees can also elect to participate in a School-sponsored 403(B) plan in lieu of the State of Indiana – INPRS plan. The School contributes 10.5% of participant compensation to the 403(b) plan.

Full-time employees may also choose to participate in a voluntary salary reduction 403(b) plan. The School will match the employee's contribution up to 1% of their gross wages.

Retirement plan expense was $156,741 and $117,677 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Hamilton 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 - RISKS AND UNCERTAINTIES, Continued

Financial instruments that potentially subject the School to concentration of credit risk consist principally of receivables from the State of Indiana. There were no such receivables at December 31, 2019 and 2018. Deposits maintained at First Merchants Bank are insured up to the FDIC insurance limit of $250,000. Funds held at this financial institution exceeded the FDIC insurance limit as of June 30, 2019 and 2018.

NOTE 10 - 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 receivables. Financial assets at June 30, 2019 total $1,136,821, 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. The School also has a line of credit available with a credit limit of $75,000, all of which is available to meet general expenditures within one year of the date of the statement of financial position.

NOTE 11 - 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. Certain expenses have been allocated between program services and management and general expenses. Employee benefits, transportation, office supplies, and other expenses are allocated based on the percentage allocation of salaries between program services and management and general. Occupancy and depreciation expenses are allocated based on the percentage allocation of square footage used for program services and management and general activities.

OPTIONS CHARTER SCHOOL - NOBLESVILLE, 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 Options Charter School - Noblesville, 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*.

SUPPLEMENTAL AUDIT REPORT

OF

OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.

HAMILTON COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.
HAMILTON COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Chairman of Board of Directors	Stacy Segal	07/01/18 – 06/30/19
Treasurer of Board of Directors	Will Mattingly	07/01/18 – 06/30/19
School President and CEO	Mike Gustin	07/01/18 – 06/30/19
School Treasurer	Sherrie Bly	07/01/18 – 06/30/19

The Board of Directors
Options Charter School - Noblesville, Inc.

We have audited the financial statements of Options Charter School - Noblesville, Inc. (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated October 11, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
October 11, 2019

OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.
HAMILTON COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

RECEIPTS AND DEPOSITS

We tested twenty-six cash receipts from the School's receipt books. Seven of the receipts tested were not deposited timely.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

PAYROLL COMPLIANCE

During the year, the School paid severance to two employees without obtaining a written opinion from an attorney.

Unless specifically authorized by statute, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the charter school stating that the payments are in accordance with all federal laws and regulations and state laws, as applicable. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

OPTIONS CHARTER SCHOOL - NOBLESVILLE, INC.
HAMILTON COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on October 11, 2019 with Will Mattingly (Board Treasurer); Mike Gustin (School President and CEO); Jacob Brandau (School CFO); and Sherrie Bly (School Treasurer). The Official Response has been made a part of this report and may be found on page 5.

Options Schools
BELONG. BELIEVE. ACHIEVE.

Date: October 10th, 2019

To: Donovan CPAs

From Jacob Brandau, Chief Financial Officer

Reason: **Audit Response for Options Charter School- Noblesville**

Issue One: RECEIPTS AND DEPOSITS

We tested twenty-six cash receipts from the School's receipt books. Seven of the receipts tested were not deposited timely.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Issue One: Response

This issue was due to the Options Carmel administrative assistant dealing with the large amount of student fees that came in on our back-to-school night. The back-to-school night ended late on a Friday and the money and receipts were put in the safe. This money then did not get processed to the Treasurer until the next week. This issue will be resolved next year by instituting that the Principal is responsible for depositing the money on the evening of back to school night. Generally, there is an expectation that all deposits on made on the same business day.

Issue Two: PAYROLL COMPLIANCE

During the year, the School paid severance to two employees without obtaining a written opinion from an attorney.

Unless specifically authorized by statute, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the charter school stating that the payments are in accordance with all federal laws and regulations and state laws, as applicable. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Issue Two: Response

We will be obtaining a written opinion from our attorney for any severance pay in the future. This issue was just on oversight on our part in the severance process.

Sincerely,

Jacob Brandau, Chief Financial Officer
Options Charter Schools

9945 Cumberland Pointe Blvd. | Noblesville, IN 46060 | *phone:* 317.773.8659
530 West Carmel Dr. | Carmel, IN 46032 | *phone:* 317.815.2098
www.optionsschools.org

RENAISSANCE ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Renaissance Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Renaissance Academy, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Renaissance Academy, Inc. as of June 30, 2019 and 2018, 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

Indianapolis, Indiana
December 12, 2019

RENAISSANCE ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 167,198	$ 336,172
Grants receivable	48,368	82,450
Other receivables, net of allowance for doubtful accounts	75,938	60,314
Prepaid expenses	8,322	-
Total current assets	299,826	478,936
PROPERTY AND EQUIPMENT		
Land	355,346	355,346
Buildings and improvements	723,448	697,021
Leasehold improvements	640,199	640,199
Furniture and equipment	174,472	153,124
Vehicles	57,916	57,916
Textbooks	33,712	26,698
Less: accumulated depreciation	(733,493)	(652,538)
Property and equipment, net	1,251,600	1,277,766
TOTAL ASSETS	$ 1,551,426	$ 1,756,702
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 60,728	$ 72,034
Accounts payable and accrued expenses	96,927	81,159
Deferred revenue	65,370	50,432
Total current liabilities	223,025	203,625
LONG-TERM LIABILITIES		
Notes payable, net of current portion	389,657	449,928
Total liabilities	612,682	653,553
NET ASSETS, WITHOUT DONOR RESTRICTIONS	938,744	1,103,149
TOTAL LIABILITIES AND NET ASSETS	$ 1,551,426	$ 1,756,702

RENAISSANCE ACADEMY, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 1,332,315	$ 1,505,392
Grant revenue	272,112	268,024
Student fees	214,071	231,533
Fundraising income	48,559	36,804
Other income	30,109	4,785
Total revenue and support	1,897,166	2,046,538
EXPENSES		
Program services	1,305,925	1,254,033
Management and general	755,646	719,495
Total expenses	2,061,571	1,973,528
CHANGE IN NET ASSETS	(164,405)	73,010
NET ASSETS, BEGINNING OF YEAR	1,103,149	1,030,139
NET ASSETS, END OF YEAR	$ 938,744	$ 1,103,149

RENAISSANCE ACADEMY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 647,855	$ 387,608	$ 1,035,463	$ 648,521	$ 367,484	$ 1,016,005
Employee benefits	160,908	146,783	307,691	163,702	147,869	311,571
Professional services	35,952	23,890	59,842	36,570	21,676	58,246
Staff development and recruitment	36,001	-	36,001	40,075	-	40,075
Authorizer oversight fees	-	36,768	36,768	-	40,813	40,813
Food costs	25,632	-	25,632	24,203	-	24,203
Classroom, kitchen, and office supplies	32,023	14,892	46,915	24,762	15,821	40,583
Field trips and events	64,214	-	64,214	54,720	-	54,720
Occupancy	148,601	-	148,601	137,556	-	137,556
Repairs and maintenance	57,471	-	57,471	40,920	-	40,920
Information technology	-	20,787	20,787	-	-	-
Depreciation	80,955	-	80,955	78,223	-	78,223
Insurance	-	41,735	41,735	-	42,384	42,384
Interest	-	25,715	25,715	-	28,087	28,087
Transportation	5,532	133	5,665	515	635	1,150
Bad debt	-	5,559	5,559	-	9,253	9,253
Other	10,781	51,776	62,557	4,266	45,473	49,739
Total functional expenses	$ 1,305,925	$ 755,646	$ 2,061,571	$ 1,254,033	$ 719,495	$ 1,973,528

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

RENAISSANCE ACADEMY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (164,405)	$ 73,010
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	80,955	78,223
Change in certain assets and liabilities:		
Grants receivable	34,082	(7,524)
Other receivables	(15,624)	(11,257)
Prepaid expenses	(8,322)	-
Accounts payable and accrued expenses	15,768	(38,724)
Deferred revenue	14,938	(8,287)
Refundable advance	-	(10,365)
Net cash provided by (used in) operating activities	(42,608)	75,076
INVESTING ACTIVITIES		
Purchases of property and equipment	(54,789)	(18,615)
FINANCING ACTIVITIES		
Principal payments on notes payable	(71,577)	(69,204)
NET CHANGE IN CASH	(168,974)	(12,743)
CASH, BEGINNING OF YEAR	336,172	348,915
CASH, END OF YEAR	$ 167,198	$ 336,172
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 25,715	$ 28,087

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

RENAISSANCE ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Renaissance Academy, 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 Ball State University. The School served approximately 230 students in grades kindergarten to eight during the 2018-2019 school year (250 during the 2017-2018 school year). Enrollment for the 2019-2020 school year is approximately 245. The School also provides an early childhood education program for children ages three and four on a fee basis.

As of June 30, 2019, the public charter school had a payable due to the early childhood education program of $170,000. This balance was eliminated from the statements of financial position as it is an intercompany transaction.

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 and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14. Net assets as of June 30, 2019 and 2018 were without donor restrictions.

Revenue Recognition – Revenues generally 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 the educational services are rendered.

A 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.

Program and activity fees are paid by families based on the number of children enrolled in the activities selected and are recognized in the year to which the payments pertain.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Grants and Other Receivables – Grants receivable relate primarily to activities funded under federal grants 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 with regard to such receivables. Other receivables include student and preschool fees and are reviewed for collectability on an annual basis. The accompanying statements of financial position reflect allowances for doubtful accounts of $44,294 and $46,675 as of June 30, 2019 and 2018, respectively.

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 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:

Buildings and improvements	39 years
Leasehold improvements	5 to 15 years
Furniture and equipment	3 to 7 years
Vehicles	5 years
Textbooks	3 years

Deferred Revenue – Deferred revenue consists of enrollment fees and materials and supplies fees received as part of the enrollment process for the subsequent academic school year.

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.

Taxes on Income – Renaissance Academy, Inc. 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. Tax years ending after 2015 are open to audit for both federal and state purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events – The School evaluated subsequent events through December 12, 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 were comprised of the following at June 30:

	2019	**2018**
Note payable to 1st Source Bank, payable in monthly installments of $3,575 including interest at 1.8% per annum through January 2020, secured by assets purchased with the note proceeds and guaranteed by the school facility landlord (see Note 3).	$ 25,275	$ 67,299
Mortgage note payable to 1st Source Bank, payable in monthly installments of $4,532 including interest at 5.55% per annum through September 2019. The note was refinanced with 1st Source Bank in October 2019, monthly installments of $5,597 including interest at 4.17% per annum through September 2024. The School drew additional proceeds of $327,681 to be used for loan closing costs, facility and grounds improvements, and operations.	425,110	454,663
	450,385	521,962
Less: current portion	(60,728)	(72,034)
Long-term portion	$ 389,657	$ 449,928

Principal maturities of notes payable, after the October 2019 refinancing and including the additional loan proceeds, are as follows for the years ending June 30:

2020	$ 60,728
2021	37,551
2022	39,170
2023	40,859
2024	42,553
Thereafter	557,205
Total	$ 778,066

NOTE 3 - RELATED PARTY LEASE

The School leases a portion of the school facilities from V&K, LLC under a 10-year lease that ends June 30, 2027. The lease is accounted for as an operating lease. V&K, LLC is owned by Kieran McHugh and Vicki McHugh, both of whom are employees of the School. Under the lease agreement, monthly base rent is $8,191 (adjusted annually by the rate of inflation, as defined) and the School is responsible for all utilities and insurance on the contents. Expense under this lease was $114,312 and $103,572 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease obligations under this lease (ignoring the annual rate of inflation adjustment) are as follows for the years ending June 30:

2020	$ 98,292
2021	98,292
2022	98,292
2023	98,292
2024	98,292
Thereafter	294,876

NOTE 4 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition payments received. Expense under this charter agreement was $36,768 and $40,813 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2022 and is renewable thereafter by mutual consent.

NOTE 5 - RETIREMENT PLANS

Retirement benefits for school employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2018 (the latest year reported), both TRF and PERF were approximately 80% funded.

Retirement plan expense was $77,109 and $81,878 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in LaPorte 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019, substantially all of the grants receivable balance was due from the State of Indiana. All cash deposits are maintained at 1st Source Bank and are insured up to the FDIC insurance up to the legal 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. The School's financial assets include cash, grants receivable, and other receivables, net of allowance for doubtful accounts. Financial assets at June 30, 2019 total $291,504, all of which are available to meet cash needs for general expenditures within a 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 is 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 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 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.

RENAISSANCE ACADEMY, 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 Renaissance Academy, 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*.

SUPPLEMENTAL AUDIT REPORT
OF
RENAISSANCE ACADEMY, INC.

LAPORTE COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

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RENAISSANCE ACADEMY, INC.
LAPORTE COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
President of Board of Directors	Ann Bates	07/01/18 – 06/30/19
Head of School	Kieran McHugh	07/01/18 – 06/30/19
Treasurer	Heidi Potucek	07/01/18 – 06/30/19

The Board of Directors
Renaissance Academy, Inc.

We have audited the financial statements of Renaissance Academy, Inc. (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated December 12, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
December 12, 2019

RECEIPTS AND DEPOSITS

The School receives cash for various purposes including textbook fees, field trips, enrollment, fundraising, and other items. We noted 13 instances in our sample of 40 cash receipt transactions where the bank deposit was not made in a timely manner. The span of time between the date of collection and the date of deposit ranged from 6 to 24 days.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

RENAISSANCE ACADEMY, INC.
LAPORTE COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on December 12, 2019 with Lori Gayheart (Business Manager), Tina Bushue (Accountant), and Jack Stewart (Board Member). The Official Response has been made a part of this report and may be found on page 5.

RENAISSANCE ACADEMY

SUPPLEMENTAL AUDIT REPORT RESPONSES

RECEIPTS AND DEPOSITS

The accountant employed by Renaissance is part-time. It is cost and time prohibitive for a bank deposit to be made daily. Deposits are typically made on a weekly basis unless payments are received immediately prior to school breaks, such as in the winter and spring, or during the summer, when it would be fiscally irresponsible to compensate our part-time accountant to come in to deposit small amounts of money. Monies waiting to be deposited are kept in a secure office in a secure cabinet accessible only to authorized personnel. Barring any unusual circumstances such as the school being on break, or the accountant being absent, deposits will routinely be made every week.

Submitted by:

Lori Gayheart
Chief Administrator

4093 WEST US 20, LAPORTE, INDIANA 46350-8269
(219) 878-8711 WWW.RSCHOOL.NET INFO@RSCHOOL.NET

ROCK CREEK COMMUNITY ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Rock Creek Community Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Rock Creek Community Academy, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rock Creek Community Academy, Inc. as of June 30, 2019 and 2018, 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

Indianapolis, Indiana
November 7, 2019

ROCK CREEK COMMUNITY ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 1,190,821	$ 1,030,522
Cash - restricted for construction	4,317,491	-
Cash - restricted for debt service	1,085,843	-
Total cash	6,594,155	1,030,522
Grants receivable	44,429	3,562
Prepaid expenses	62,255	51,030
Total current assets	6,700,839	1,085,114
PROPERTY AND EQUIPMENT		
Land	1,196,153	1,196,153
Leasehold improvements	555,013	555,013
Furniture and equipment	690,328	592,022
Textbooks	426,133	402,513
Construction in progress	9,769,996	661,826
Less: accumulated depreciation	(1,534,898)	(1,389,085)
Property and equipment, net	11,102,725	2,018,442
OTHER ASSETS		
Security deposits	4,000	4,000
TOTAL ASSETS	$ 17,807,564	$ 3,107,556
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	$ -	$ 1,456,441
Accounts payable and accrued expenses	304,308	352,233
Construction costs payable	1,272,655	186,150
Accrued bond interest payable	433,556	-
Deferred revenue	135,958	126,361
Refundable advances	8,588	-
Total current liabilities	2,155,065	2,121,185
LONG-TERM LIABILITIES		
Bonds payable	14,650,000	-
Plus: unamortized premiums on bonds payable	123,840	-
Less: unamortized debt issuance costs	(447,569)	-
Total long-term liabilities, net	14,326,271	-
Total liabilities	16,481,336	2,121,185
NET ASSETS		
Without donor restrictions	1,262,053	923,832
With donor restrictions	64,175	62,539
Total net assets	1,326,228	986,371
TOTAL LIABILITIES AND NET ASSETS	$ 17,807,564	$ 3,107,556

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

ROCK CREEK COMMUNITY ACADEMY, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
State education support	$ 3,423,550	$ -	$ 3,423,550	$ 3,040,013	$ -	$ 3,040,013
Grant revenue	601,385	-	601,385	511,887	-	511,887
Student fees	219,201	96,857	316,058	180,662	94,722	275,384
Contributions	7,970	2,455	10,425	6,980	1,380	8,360
Fundraising income	39,752	55,847	95,599	48,789	38,347	87,136
Interest income	119,926	-	119,926	-	-	-
Net assets released from restrictions	153,523	(153,523)	-	105,260	(105,260)	-
Total revenue and support	4,565,307	1,636	4,566,943	3,893,591	29,189	3,922,780
EXPENSES						
Program services	3,545,530	-	3,545,530	3,453,031	-	3,453,031
Management and general	681,556	-	681,556	620,141	-	620,141
Total expenses	4,227,086	-	4,227,086	4,073,172	-	4,073,172
CHANGE IN NET ASSETS FROM OPERATIONS	338,221	1,636	339,857	(179,581)	29,189	(150,392)
In-kind donation of land	-	-	-	193,000	-	193,000
Loss due to irrecoverable earnest money for land	-	-	-	(20,350)	-	(20,350)
CHANGE IN NET ASSETS	338,221	1,636	339,857	(6,931)	29,189	22,258
NET ASSETS, BEGINNING OF YEAR	923,832	62,539	986,371	930,763	33,350	964,113
NET ASSETS, END OF YEAR	$ 1,262,053	$ 64,175	$ 1,326,228	$ 923,832	$ 62,539	$ 986,371

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

ROCK CREEK COMMUNITY ACADEMY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 1,682,229	$ 329,264	$ 2,011,493	$ 1,585,832	$ 317,959	$ 1,903,791
Employee benefits	411,227	61,270	472,497	401,087	66,269	467,356
Professional services	403,631	100,921	504,552	435,781	70,489	506,270
Occupancy	347,897	-	347,897	340,118	-	340,118
Classroom, kitchen, and office supplies	224,214	18,017	242,231	240,763	7,967	248,730
Depreciation	145,813	-	145,813	170,339	-	170,339
Equipment	83,172	-	83,172	48,160	-	48,160
Authorizer oversight fees	-	83,652	83,652	-	73,084	73,084
Food costs	63,035	-	63,035	51,803	-	51,803
Field trips	55,115	-	55,115	45,011	-	45,011
Insurance	-	38,373	38,373	-	32,799	32,799
Repairs and maintenance	32,916	4,228	37,144	51,205	5,109	56,314
Advertising	-	26,699	26,699	-	29,286	29,286
Staff development	22,933	-	22,933	2,539	-	2,539
Amortization of debt issuance costs	11,476	-	11,476	-	-	-
Interest	-	168	168	-	-	-
Other	61,872	18,964	80,836	80,393	17,179	97,572
Total functional expenses	$ 3,545,530	$ 681,556	$ 4,227,086	$ 3,453,031	$ 620,141	$ 4,073,172

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

ROCK CREEK COMMUNITY ACADEMY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 339,857	$ 22,258
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	145,813	170,339
Amortization of debt issuance costs	11,476	-
In-kind donation of land	-	(193,000)
Change in certain assets and liabilities:		
Grants receivable	(40,867)	7,138
Prepaid expenses	(11,225)	3,427
Accounts payable and accrued expenses	(47,925)	81,481
Deferred revenue	9,597	10,057
Refundable advances	8,588	(1,333)
Net cash provided by operating activities	415,314	100,367
INVESTING ACTIVITIES		
Purchases of property and equipment	(121,926)	(49,469)
Payments for construction in progress	(7,591,284)	(1,478,829)
Net cash used in investing activities	(7,713,210)	(1,528,298)
FINANCING ACTIVITIES		
Proceeds from bonds payable	14,777,015	-
Debt issuance costs	(459,045)	-
Net proceeds from (repayments of) line of credit	(1,456,441)	1,456,441
Net cash provided by financing activities	12,861,529	1,456,441
NET CHANGE IN CASH	5,563,633	28,510
CASH, BEGINNING OF YEAR	1,030,522	1,002,012
CASH, END OF YEAR	$ 6,594,155	$ 1,030,522
SUPPLEMENTAL INFORMATION		
Cash paid for interest, including capitalized interest	$ 280,211	$ -
NON-CASH TRANSACTIONS		
Construction costs payable	1,272,655	186,150
Capitalized interest included in construction in progress	433,556	-
Amortization of premiums on bonds payable included in construction in progress	3,175	-
In-kind donation of land	-	193,000

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

ROCK CREEK COMMUNITY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Rock Creek Community Academy, 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 Ball State University. The School, located in Sellersburg, Indiana, provided educational instruction to students in grades kindergarten to twelve, serving approximately 510 students during the 2018-2019 school year and approximately 460 students during the 2017-2018 school year.

During the year ended June 30, 2018, the School purchased land and began the construction of a new school facility. On September 1, 2018, the School entered into bond agreements with the Indiana Finance Authority to issue bonds totaling $14,650,000 for the payoff of the existing line of credit and construction of a new school facility. As of June 30, 2019, construction in progress totaled $9,769,996. Total project cost, including land and capitalized interest, is expected to be approximately $13,500,000. Management anticipates moving into the new facility during November 2019.

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 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 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.

Contributions and Fees – The School receives resources from participation fees and fundraising events that support certain school activities. These receipts are reported as restricted support in that they are received with stipulations that limit their use. When a donor restriction expires, that is, when the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions.

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, 2019 and 2018.

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, minor replacement costs, and equipment purchases with a unit cost of less than $5,000 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 to 8 years
Furniture and equipment	3 to 5 years
Textbooks	5 years

Construction in Progress – Construction in progress represents expenditures incurred for construction and development of the new school facility and are carried at cost. Cost includes related acquisition expenses, development/construction costs, capitalized interest during the construction phase of the project, and other direct expenditures.

Deferred Revenue – Deferred revenue consists of student fees and textbook rentals received as part of the enrollment process for the subsequent academic school year.

Debt Issuance Costs – During the year ended June 30, 2019, the School incurred costs totaling $459,045 associated with securing financing under the Indiana Finance Authority Education Facilities Revenue Bonds. Amortization is provided on a straight-line basis over the 30-year term of the bond. Accumulated amortization and amortization expense were $11,476 for the year ended June 30, 2019. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

Taxes on Income – Rock Creek Community Academy, Inc. has received a determination from the United States Department of Treasury 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, 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 ending after 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 7, 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 - RESTRICTED CASH

Cash - restricted for debt service is reserved solely for the payment of principal and interest on the bond in the event that other funding is unavailable to meet payment requirements.

Cash - restricted for construction represents resources available for the building project and are drawn down as construction is completed.

NOTE 3 - LINE OF CREDIT

During June 2018, the School entered into a line of credit arrangement with PNC Bank. The line of credit was secured by substantially all assets of the School. Interest on the line of credit was charged at LIBOR plus 2.50%. The line of credit was paid off and cancelled in 2019 with proceeds from the bond offering (see Note 5).

NOTE 4 - REFUNDABLE ADVANCES

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2019, the School had refundable grant advances in excess of expenditures of $8,588. There were no refundable advances at June 30, 2018.

NOTE 5 - BONDS PAYABLE

Bonds payable consisted of the following as of June 30, 2019:

Indiana Finance Authority Educational Facilities Revenue Bonds, Series 2018A with a face amount of $14,450,000, plus premium of $127,015. The principal is payable in annual installments that increase from $140,000 to $905,000 from July 2021 to July 2048, with a lump sum payment of $2,060,000 due in July 2048. Interest payments are made semiannually on January 1 and July 1 at rates ranging from 5.25% to 6.125% from July 2021 to July 2039 in accordance with the bond agreement. The bond obligation is secured by land, buildings, and improvements.	$	14,450,000
Indiana Finance Authority Taxable Educational Facilities Revenue Bonds, Series 2018B with a face amount of $200,000. The principal is payable in annual installments $65,000, $65,000, and $70,000 in July 2020, 2021, and 2022, respectively. Interest payments are made semiannually on January 1 and July 1 at a rate of 6.375% in accordance with the bond agreement. The bond obligation is secured by land, buildings, and improvements.		200,000
Long-term portion	$	14,650,000

The premium on the Series A bonds above totaled $127,015 and is being amortized over the 30 year life of the bonds. Amortization of the premium for the year ended June 30, 2019 was $3,175 and is netted against capitalized interest expense (i.e. a reduction of construction in progress).

The Indiana Finance Authority Educational Facilities Revenue Bond agreement contains certain covenants requiring minimum unrestricted cash reserves sufficient to meet 45 days of operating expenses and establishes a minimum debt service coverage ratio of 1.10 to 1. The School was in compliance with covenants for 2019.

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

2020	$	-
2021		65,000
2022		205,000
2023		215,000
2024		225,000
Thereafter		13,940,000
	$	14,650,000

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent resources received from students and donors but not expended for the restricted purposes as of June 30, 2019 and 2018. Net assets with donor restrictions were available for the following purposes as of June 30:

	2019	2018
Fun run	$ 25,526	$ 21,536
Character counts	15,598	16,536
Grade level funds	5,173	11,333
Other	17,878	13,134
Total	$ 64,175	$ 62,539

Net assets were released from donor restrictions by incurring expenses to satisfy the restricted purpose. The following purpose restrictions were accomplished during the years ended June 30:

	2019	2018
Fun run	$ 22,689	$ 893
Character counts	32,189	21,898
Grade level funds	67,739	65,056
Other	30,906	17,413
Total	$ 153,523	$ 105,260

NOTE 7 - LEASES

The School leases its school facility, modular classrooms, and items of equipment under operating leases. Under the facility lease, the School is also responsible for repairs, maintenance, and utilities. Total expense under these operating leases was $306,645 and $294,426 for the years ended June 30, 2019 and 2018, respectively. Minimum future rental payments as of June 30, 2019 for all operating leases with noncancellable lease terms in excess of one year are as follows for the years ending June 30:

2020	$ 232,828
2021	44,568

NOTE 8 - RETIREMENT PLAN

The School maintains a Section 403(b) defined contribution retirement plan with Mass Mutual Financial Group for the benefit of its employees. Substantially all full-time employees are eligible to participate. Under the plan, the School contributes 7.5% of each participant's compensation for the plan year. Retirement plan expense for the years ended June 30, 2019 and 2018 was $135,584 and $135,675, respectively.

NOTE 9 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. The charter remains in effect until June 30, 2020 and is renewable thereafter by mutual consent. Payments under this charter agreement were $83,652 and $73,084 for the years ended June 30, 2019 and 2018, respectively.

NOTE 10 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Clark 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019, substantially all of the grants receivable balance was due from the State of Indiana. Cash deposits are maintained at New Washington State Bank and US Bank and normally exceed the FDIC insurance limit.

NOTE 11 - 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 statements of financial position. The School's financial assets include cash and grants receivable.

Financial assets, June 30, 2019	$	6,638,584
Less: those unavailable for general expenditures within one year, due to:		
Restricted cash for use in construction and debt service		(5,403,334)
Purpose restrictions by donor		(64,175)
Financial assets available to meet cash needs for general expenditures within one year	$	1,171,075

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 12 - 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.

ROCK CREEK COMMUNITY ACADEMY, 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 Rock Creek Community Academy, 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.*

SUPPLEMENTAL AUDIT REPORT
OF
ROCK CREEK COMMUNITY ACADEMY, INC.

CLARK COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan
CPAs

TABLE OF CONTENTS

ROCK CREEK COMMUNITY ACADEMY, INC.
CLARK COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
Board Chairman	Jeff Dethy	07/01/18 – 06/30/19
Principal	Sara Hauselman	07/01/18 – 06/30/19
School Treasurer	Susan Miller	07/01/18 – 06/30/19

Donovan CPAs

The Board of Directors
Rock Creek Community Academy, Inc.

We have audited the financial statements of Rock Creek Community Academy, Inc. (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated November 7, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
November 7, 2019

ROCK CREEK COMMUNITY ACADEMY, INC.
CLARK COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

RECEIPTS AND DEPOSITS

We selected a sample of 25 receipts for testing from the School's receipt books. Of the 25 receipts selected for testing, 3 were not deposited in a timely manner (7, 9, and 17 days after receipt).

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

ROCK CREEK COMMUNITY ACADEMY, INC.
CLARK COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on November 4, 2019 with Jeff Dethy (Board Chairman), Karen Rogers (Business Manager), and Terry Eldridge (School Treasurer). The Official Response has been made a part of this report and may be found on page 5.

Rock Creek Community Academy

8000 Diefenbach Lane • Sellersburg, IN 47172 • 812-246-9271 • www.rccasi.org

November 7, 2019

Donovan CPAs
9292 N Meridian Street, Ste. 150
Indianapolis, IN 46260

To Whom It May Concern:

Rock Creek Community Academy having finished its audit exit conference with Donovan CPAs, acknowledges the one finding that the auditors have cited, which pertains to 3 deposits not being deposited in a timely manner. In the future, Rock Creek will note on the receipt book when a parent asks Rock Creek to hold a check until a future deposit date.

Sincerely,

Karen Rogers, Business Manager

Karen Rogers
Business Manager

RCCA

RURAL COMMUNITY SCHOOLS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018

Donovan CPAs

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Independent Auditors' Report

The Board of Directors
Rural Community Schools, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Community Schools, Inc. (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2019 and 2018 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 Regarding Going Concern

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School experienced significant decreases in enrollment for the 2018-2019 and 2019-2020 school years. The decrease in enrollment significantly reduces revenue and raises substantial doubt about the School's ability to continue as a going concern. Management's plans regarding this matter are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN

Donovan

Indianapolis, Indiana
November 13, 2019

RURAL COMMUNITY SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 461,425	$ 631,631
Grants receivable	9,900	68,039
Total current assets	471,325	699,670
PROPERTY AND EQUIPMENT		
Leasehold improvements	173,197	170,297
Furniture and equipment	334,136	315,379
Textbooks and library books	79,430	79,430
Less: accumulated depreciation	(376,063)	(339,006)
Property and equipment, net	210,700	226,100
TOTAL ASSETS	$ 682,025	$ 925,770
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 54,131	$ 68,775
NET ASSETS, WITHOUT DONOR RESTRICTIONS	627,894	856,995
TOTAL LIABILITIES AND NET ASSETS	$ 682,025	$ 925,770

RURAL COMMUNITY SCHOOLS, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE AND SUPPORT		
State education support	$ 998,223	$ 1,365,830
Grant revenue	282,910	352,366
Student fees	22,010	40,091
Extracurricular activities revenue	34,744	37,065
Contributions	3,177	3,227
Other income	20,321	1,949
Total revenue and support	1,361,385	1,800,528
EXPENSES		
Program services	1,214,427	1,373,685
Management and general	376,059	312,047
Total expenses	1,590,486	1,685,732
CHANGE IN NET ASSETS	(229,101)	114,796
NET ASSETS, BEGINNING OF YEAR	856,995	742,199
NET ASSETS, END OF YEAR	$ 627,894	$ 856,995

RURAL COMMUNITY SCHOOLS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	$ 589,157	$ 188,829	$ 777,986	$ 727,574	$ 161,551	$ 889,125
Employee benefits	174,457	48,262	222,719	196,711	41,564	238,275
Staff development	14,704	-	14,704	6,328	-	6,328
Professional services	101,452	55,835	157,287	60,028	5,586	65,614
Textbooks and education materials	23,846	-	23,846	7,017	-	7,017
Authorizer oversight fees	-	20,873	20,873	-	27,841	27,841
Food costs	68,152	-	68,152	80,106	-	80,106
Transportation	21,727	216	21,943	31,841	1,459	33,300
Equipment and rentals	14,755	10,072	24,827	27,641	23,036	50,677
Classroom, kitchen, and office supplies	17,354	7,638	24,992	29,990	15,580	45,570
Extracurricular activities	27,246	-	27,246	43,428	-	43,428
Occupancy	115,346	3,197	118,543	118,399	3,615	122,014
Depreciation	37,057	-	37,057	43,626	-	43,626
Insurance	-	15,272	15,272	-	18,713	18,713
Advertising	-	6,049	6,049	-	3,235	3,235
Other	9,174	19,816	28,990	996	9,867	10,863
Total functional expenses	$ 1,214,427	$ 376,059	$ 1,590,486	$ 1,373,685	$ 312,047	$ 1,685,732

RURAL COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (229,101)	$ 114,796
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	37,057	43,626
Change in certain assets and liabilities:		
Grants receivable	58,139	(51,775)
Accounts payable and accrued expenses	(14,644)	2,883
Refundable advances	-	(2,865)
Net cash provided by (used in) operating activities	(148,549)	106,665
INVESTING ACTIVITIES		
Purchases of property and equipment	(21,657)	(33,282)
NET CHANGE IN CASH	(170,206)	73,383
CASH, BEGINNING OF YEAR	631,631	558,248
CASH, END OF YEAR	$ 461,425	$ 631,631

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Rural Community Schools, 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 Ball State University. The School provided educational instruction to students in grades kindergarten through eight, serving approximately 125 students during the 2018-2019 school year and approximately 175 students in the 2017-2018 school year. The student count is 95 for the 2019-2020 school year.

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 assets 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 generally 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 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.

Contributions – Contributions received are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal grants 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.

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 are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs 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	15 to 40 years
Furniture and equipment	5 to 10 years
Textbooks and library books	5 years

Taxes on Income – Rural Community Schools, Inc. 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. Tax years ending after 2015 are open to audit for both federal and state purposes.

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

Student enrollment declined from approximately 175 during the 2017-2018 school year to 95 students enrolled as of September 2019. During the year ended June 30, 2019, expenses exceeded revenues by approximately $230,000. While the School has approximately $471,000 of financial assets as of June 30, 2019, the decrease in revenue from the decline in enrollment raises substantial doubt about the School's ability to continue as a going concern beyond twelve months of the date of the accompanying audit report.

NOTE 2 - GOING CONCERN CONSIDERATION, Continued

Management's Response

"The School's management and Board of Directors are working to cut spending wherever possible outside of the fixed costs of operations. While we should not outspend what we have in the bank, we recognize that it is unlikely that we can sustain another school year at current enrollment. Meanwhile, we understand that we are still rebuilding a program that must be fixed to increase enrollment in the future.

Step one was to slightly raise teacher wages. The small increase in salaries have helped us to hire quality teachers and retain the qualified teachers that we did have. The amount spent on the salary increase that we would have saved without raises, would not have kept us financially viable any longer than we already are. However, the benefit of reworking a program with quality teachers will pay off in the coming years.

The next step is a large marketing campaign to help encourage new enrollment. This will include TV ads throughout the year, radio ads, a billboard, social media campaigns, and print ads. We believe that this will result in an increased enrollment for the 2020-2021 school year. A marketing strategy will be presented and approved at the November 2019 Board meeting and work will begin immediately on the campaign.

We are also considering adding bus stops to encourage more enrollment as we know there are families that want to attend the School but are unable due to transportation restrictions. We are looking at our current fleet of three older buses to measure the feasibility of adding our spare bus into a full time route.

These actions and the constant monitoring of our budget to look for new ways to cut costs, even after enrollment numbers rise, will help us to stay financially viable into the future."

The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

NOTE 3 - LEASES

The School leases its facility under an operating lease that is renewable annually and provides for monthly rental payments of $1,000. Under the terms of the facilities lease, the School is responsible for the cost of utilities and maintenance. The School also leases a copier on a short-term contract. Rent expense for the years ended June 30, 2019 and 2018 was $21,319 and $21,774, respectively.

NOTE 4 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was $20,873 and $27,841 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2021 and is renewable thereafter by mutual consent.

NOTE 5 - RETIREMENT PLANS

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") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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 plans, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2018 (the latest year reported), TRF and PERF were approximately 80% funded.

Retirement plan expense was $59,415 and $67,502 for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Sullivan 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all of the receivable balance was due from the State of Indiana. Cash deposits are maintained at First Financial Bank and are insured up to the FDIC insurance limit. Cash balances exceeded FDIC insured limits at various times during the year.

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. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total $471,325, all of which are available to meet cash needs for general expenditures within one 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 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 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.

RURAL COMMUNITY SCHOOLS, 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 Rural Community Schools, 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.*

SUPPLEMENTAL AUDIT REPORT

OF

RURAL COMMUNITY SCHOOLS, INC.

SULLIVAN COUNTY, INDIANA

July 1, 2018 to June 30, 2019

Donovan CPAs

TABLE OF CONTENTS

RURAL COMMUNITY SCHOOLS, INC.
SULLIVAN COUNTY, INDIANA
School Officials
July 1, 2018 to June 30, 2019

Office	Official	Term
President of Board of Directors	Meleah Sullivan	07/01/18 – 06/30/19
School Leader	Derek Grant	07/01/18 – 06/30/19
Chief Financial Officer	Leona Davis	07/01/18 – 06/30/19

The Board of Directors
Rural Community Schools, Inc.

We have audited the financial statements of Rural Community Schools, Inc. (the "School") as of and for the year ended June 30, 2019 and have issued our report thereon dated November 13, 2019. As part of our audit, we tested the School's compliance with provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

DONOVAN

Donovan

Indianapolis, Indiana
November 13, 2019

RURAL COMMUNITY SCHOOLS, INC.
SULLIVAN COUNTY, INDIANA
Audit Results and Comments
July 1, 2018 to June 30, 2019

REQUIRED REPORTS

We reviewed both biannual Form 9 reports filed by the School for the fiscal year. Although the ending cash balance per the Form 9 agreed to the ending cash balance per the School's trial balance, individual funds did not reflect actual activity in those funds during the year. Additionally, we noted negative balances in funds that did not appear to relate to awaiting reimbursements on cost-reimbursement grants.

Charter schools are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Charter schools shall file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which shall be investigated by the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

CAPITAL ASSETS

The School did not perform an inventory of its capital assets during fiscal year 2019.

Every charter school must have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory must be recorded on the applicable Capital Assets Ledger. A complete inventory shall be taken for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 15)

RURAL COMMUNITY SCHOOLS, INC.
SULLIVAN COUNTY, INDIANA
Exit Conference
July 1, 2018 to June 30, 2019

The contents of this report were discussed on November 13, 2019, with Meleah Sullivan (Board President), Derek Grant (School Leader), Leona Davis (Chief Financial Officer), Susie Pierce (Community Member), Dr. Robert Marra (Executive Director of Ball State University's Office of Charter Schools), Marriette Siler (Executive Coordinator of Ball State University's Office of Charter Schools), Jamie Garwood (Academic Performance Coordinator of Ball State University's Office of Charter Schools).

The official response has been made a part of this report and may be found on pages 5-7.

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P.O. Box 85
Graysville, IN 47852
Phone 812-382-4500

Rural Community Academy

"A Public School Where Every Child Soars"
www.rcsi.k12.in.us

Physical Address
2385 N. State Road 63
Sullivan, IN 47882
Fax 812-382-4055

SBOA RESPONSE TO FINDINGS
Report Period Ending June 30, 2019

REQUIRED REPORTS

Concerns regarding the following observations are justified:

- form 9 balances
- actual activity in those fund balances
- activity that related to awaiting reimbursements on cost reimbursement
- and overdrawn fund balances

The following attachments of the DOE Biannual Receipts and Expenditures for both period show those problems in yellow highlighting and the adjustment that the school will need to made.

CAPITAL ASSETS

Findings related to an annual inventory are correct for the 2018-19 school year. The last physical inventory was in 2017. Although Equipment Inventory was provided for 2018-19 and a Capital Assets Ledger (Fixed Asset Schedule) was provided for 2018-19, a physical inventory of Furniture, Textbooks and Library Books was not completed. A Form 369 (Depreciation Schedule) was provided.

Inventory by room will be taken during the 2019-20 school year.

9465 Rural Community Schools Inc

INDIANA DEPARTMENT OF EDUCATION
Office of School Finance
FORM 9 FINANCIAL REPORT
Summary of Receipts and Expenditures

7-1-2-2018 to 12-31-2018

Fund	Beginning Cash Balance	Receipts	Receipt Exceptions	Expenditures	Expenditure Exceptions	Ending Cash Balance	NOTES
100-General	$573,704.91	$550,535.19	$0.00	$687,204.22	$15,288.28	$421,747.60	OK
800-Lunchea	$0.00	$35,463.02	$15,288.28	$50,751.30	$0.00	$0.00	OK
900-Textbooks	-$1.11	$2,236.07	$0.00	$5,693.57	$0.00	-$3,458.61	awaiting reimbursement
1910-Library	$3,777.08	$0.00	$0.00	$380.00	$0.00	$3,397.08	OK
2300-ExCurr	$28,060.16	$13,163.11	$0.00	$19,373.19	$0.00	$21,850.08	OK
2900-Memberships	$1,507.11	$275.00	$0.00	$0.00	$0.00	$1,782.11	OK
3028-Fprm Assess	$0.00	$2,474.46	$0.00	$0.00	$0.00	$2,474.46	OK
3720-eRate	-$6,159.77	$0.00	$0.00	$6,382.49	$0.00	-$12,542.26	problem #1
3750-Teacer Apprec	$0.00	$3,836.58	$0.00	$0.00	$0.00	$3,836.58	was spent - applied wrong fund #
3769-High Ability	$17,773.85	$0.00	$0.00	$1,215.02	$0.00	$16,558.83	OK
3951-Charter Innov	$82,207.03	$65,000.00	$0.00	$19,322.43	$0.00	$127,884.60	OK
4100-Title I	-$29,006.68	$30,460.85	$0.00	$16,531.03	$0.00	-$15,076.86	awaiting reimbursement
5200-Spec Ed	-$38,302.96	$37,577.00	$0.00	$23,683.62	$0.00	-$24,409.58	awaiting reimbursement
6840-Title II	-$1,928.34	$0.00	$0.00	$2,520.82	$0.00	-$4,449.16	awaiting reimbursement
6860-REAP	$0.00	$0.00	$0.00	$16,530.87	$0.00	-$16,530.87	awaiting reimbursement
Total	**$631,631.28**	**$741,021.28**	**$15,288.28**	**$849,588.56**	**$15,288.28**	**$523,064.00**	

Problem #1	Erate has been messed up espcially since we had to get a new provider - we will get it straighted out with adj entries to correct.
Problem #2	The Teacher Appreciation grant was distributed but it was left with other payroll accounts in the General Fund - we will do adj entries to correct.

9465 Rural Community Schools Inc

INDIANA DEPARTMENT OF EDUCATION
Office of School Finance
FORM 9 FINANCIAL REPORT
Summary of Receipts and Expenditures

1-1-2019 to 6/30/2019

Fund	Beginning Cash Balance	Receipts	Receipt Exceptions	Expenditures	Expenditure Exceptions	Ending Cash Balance	NOTES
100-General	$421,747.60	$470,657.72	$19,183.29	$579,656.77	$6,918.93	$325,012.91	OK
800-Lunches	$0.00	$42,455.75	$6,918.93	$49,374.68	$0.00	$0.00	OK
900-Textbooks	-$3,458.61	$9,728.45	$0.00	$203.06	$0.00	$6,066.78	OK
1910-Library	$3,397.08	$20.00	$0.00	$608.39	$0.00	$2,808.69	OK
2300-ExCurr	$21,850.08	$21,522.95	$0.00	$17,625.15	$0.00	$25,747.88	OK
2900-Memberships	$1,782.11	$680.00	$0.00	$0.00	$0.00	$2,462.11	OK
3028-Fprm Assess	$2,474.46	$0.00	$0.00	$0.00	$2,474.46	$0.00	OK
3400-Early Interv	$0.00	$1,378.93	$0.00	$0.00	$0.00	$1,378.93	OK
3720-eRate	-$12,542.26	$7,000.49	$0.00	$5,227.48	$0.00	-$10,769.25	problem #1 - carryover from Dec
3750-Teacer Apprec	$3,836.58	$0.00	$0.00	$0.00	$0.00	$3,836.58	problem #2 - carryover from Dec
3769-High Ability	$16,558.83	$19,079.00	$0.00	$5,774.71	$16,708.83	$13,154.29	OK
3951-Charter Innov	$127,884.60	$0.00	$0.00	$28,120.89	$0.00	$99,763.71	OK
4100-Title I	-$15,076.86	$32,716.09	$0.00	$17,639.23	$0.00	$0.00	OK
5200-Spec Ed	-$24,409.58	$40,020.00	$0.00	$15,610.42	$0.00	$0.00	OK
6840-Title II	-$4,449.16	$5,370.42	$0.00	$7,976.36	$0.00	-$7,055.10	awaiting reimbursement
6860-REAP	-$16,530.87	$27,870.00	$0.00	$11,339.13	$0.00	$0.00	OK
Total	**$523,064.00**	**$678,499.80**	**$26,102.22**	**$739,156.27**	**$26,102.22**	**$462,407.53**	

Problem #1 See explanation above
Problem #2 See explanation above