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December 13, 2017

Charter School Board
Indianapolis Academy of Excellence, Inc.
1145 E 22nd St
Indianapolis, IN 46202

We have reviewed the report prepared by Indianapolis Academy of Excellence, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Indianapolis Academy of Excellence, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Indianapolis Academy of Excellence, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Indianapolis Academy of Excellence, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indianapolis Academy of Excellence, Inc. as of June 30, 2017 and 2016, and the changes in its net assets (deficiency), its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

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

Indianapolis, Indiana

November 21, 2017

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 105,379	\$ 46,509
Grants receivable	19,397	50,724
Prepaid expenses	<u>12,311</u>	<u>9,870</u>
<i>Total current assets</i>	<u>137,087</u>	<u>107,103</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	284,214	235,988
Leasehold improvements	34,178	32,880
Vehicles	21,929	21,929
Textbooks	39,400	16,476
Less: accumulated depreciation	<u>(221,835)</u>	<u>(114,885)</u>
<i>Property and equipment, net</i>	<u>157,886</u>	<u>192,388</u>
TOTAL ASSETS	<u><u>\$ 294,973</u></u>	<u><u>\$ 299,491</u></u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 72,953	\$ 120,883
Refundable advance	<u>14,323</u>	<u>-</u>
<i>Total current liabilities</i>	<u>87,276</u>	<u>120,883</u>
LONG-TERM LIABILITIES		
Deferred rent payable	40,847	61,270
Note payable	<u>300,000</u>	<u>200,000</u>
<i>Total long-term liabilities</i>	<u>340,847</u>	<u>261,270</u>
<i>Total liabilities</i>	<u>428,123</u>	<u>382,153</u>
NET DEFICIENCY		
Unrestricted	(189,319)	(156,759)
Temporarily restricted	<u>56,169</u>	<u>74,097</u>
<i>Total net deficiency</i>	<u>(133,150)</u>	<u>(82,662)</u>
TOTAL LIABILITIES AND NET DEFICIENCY	<u><u>\$ 294,973</u></u>	<u><u>\$ 299,491</u></u>

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

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>			<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT						
State education support	\$ 749,261	\$ -	\$ 749,261	\$ 628,474	\$ -	\$ 628,474
Grant revenue	323,951	-	323,951	364,471	-	364,471
Student fees	696	-	696	928	-	928
Contributions	28,548	-	28,548	13,326	-	13,326
Other income	11,598	-	11,598	6,828	-	6,828
Net assets released from restrictions	17,928	(17,928)	-	45,656	(45,656)	-
<i>Total revenue and support</i>	<u>1,131,982</u>	<u>(17,928)</u>	<u>1,114,054</u>	<u>1,059,683</u>	<u>(45,656)</u>	<u>1,014,027</u>
EXPENSES						
Program services	910,689	-	910,689	910,604	-	910,604
Management and general	253,853	-	253,853	209,758	-	209,758
<i>Total expenses</i>	<u>1,164,542</u>	<u>-</u>	<u>1,164,542</u>	<u>1,120,362</u>	<u>-</u>	<u>1,120,362</u>
CHANGE IN NET ASSETS (DEFICIENCY)	(32,560)	(17,928)	(50,488)	(60,679)	(45,656)	(106,335)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>(156,759)</u>	<u>74,097</u>	<u>(82,662)</u>	<u>(96,080)</u>	<u>119,753</u>	<u>23,673</u>
NET ASSETS (DEFICIENCY), END OF YEAR	<u>\$ (189,319)</u>	<u>\$ 56,169</u>	<u>\$ (133,150)</u>	<u>\$ (156,759)</u>	<u>\$ 74,097</u>	<u>\$ (82,662)</u>

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

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>			<u>2016</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 386,826	\$ 145,079	\$ 531,905	\$ 355,551	\$ 116,015	\$ 471,566
Employee benefits	58,085	16,764	74,849	53,079	13,618	66,697
Staff development	10,902	-	10,902	5,855	-	5,855
Professional services	52,863	61,283	114,146	87,488	54,460	141,948
Repairs and maintenance	24,936	-	24,936	24,257	-	24,257
Food service	74,901	-	74,901	63,289	-	63,289
Travel	1,020	69	1,089	780	1,750	2,530
Equipment	11,099	-	11,099	34,261	-	34,261
Classroom, kitchen, and office supplies	19,432	6,806	26,238	49,435	6,939	56,374
Occupancy	160,349	-	160,349	158,561	-	158,561
Depreciation	106,949	-	106,949	74,989	-	74,989
Insurance	-	14,225	14,225	-	11,959	11,959
Other	3,327	9,627	12,954	3,059	5,017	8,076
<i>Total functional expenses</i>	<u>\$ 910,689</u>	<u>\$ 253,853</u>	<u>\$ 1,164,542</u>	<u>\$ 910,604</u>	<u>\$ 209,758</u>	<u>\$ 1,120,362</u>

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

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net deficiency	\$ (50,488)	\$ (106,335)
Adjustments to reconcile change in net deficiency to net cash provided by (used in) operating activities:		
Depreciation	106,949	74,989
Changes in certain assets and liabilities:		
Grants receivable	31,328	87,474
Prepaid expenses	(2,441)	(2,016)
Accounts payable and accrued expenses	(47,930)	(83,047)
Refundable advances	14,323	-
Deferred rent payable	(20,423)	11,880
	<u>31,318</u>	<u>(17,055)</u>
<i>Net cash provided by (used in) operating activities</i>		
	<u>31,318</u>	<u>(17,055)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(72,448)</u>	<u>(76,825)</u>
FINANCING ACTIVITIES		
Proceeds from forgivable note payable	100,000	100,000
Principal repayment on equipment note payable	<u>-</u>	<u>(10,285)</u>
	<u>100,000</u>	<u>89,715</u>
<i>Net cash provided by financing activities</i>		
	<u>100,000</u>	<u>89,715</u>
NET CHANGE IN CASH	58,870	(4,165)
CASH, BEGINNING OF YEAR	<u>46,509</u>	<u>50,674</u>
CASH, END OF YEAR	<u>\$ 105,379</u>	<u>\$ 46,509</u>

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

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indianapolis Academy of Excellence, 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 the Indiana Charter School Board. The charter remains in effect until June 30, 2019, and is renewable thereafter by mutual consent.

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.

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.

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

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

Taxes on Income – Indianapolis Academy of Excellence, 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, 2017 and 2016, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

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 ended after 2013 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 years
Leasehold improvements	10 years
Vehicles	5 years
Textbooks	4 years

Refundable Advance – The School has been awarded a grant from the Lilly Foundation, Inc. for the purpose of establishing comprehensive counseling services for students. The grant must be utilized for its intended purpose no later than December 31, 2017, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statement of financial position and had a balance of \$14,323 at June 30, 2017.

Deferred Rent Payable – The operating lease on the school facility contains a provision for future rent increases. In accordance with generally accepted accounting principles, the School records monthly rent expense equal to the total payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is reflected as deferred rent payable in the accompanying statements of financial position.

Subsequent Events – The School evaluated subsequent events through November 21, 2017, 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.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 2 - LEASE

The School executed a fifty-nine month lease on a building used as its school facility under an operating lease agreement that commenced on August 1, 2014. The lease provides for monthly rental payments that escalate over the term of the agreement. The School has the option to renew the lease for an additional five-year term. Under the lease, the School is also responsible for all repairs, maintenance, utilities, and insurance. The School also leases various equipment items. Total lease expense was \$124,592 and \$124,539 for the years ended June 30, 2017 and 2016, respectively.

Following is a schedule of future minimum lease obligations for the years ending June 30:

2018	\$	144,575
2019		141,503

NOTE 3 - FORGIVABLE NOTE PAYABLE

The School has an Affiliate School Agreement with Team CFA Foundation, whereby a total of \$300,000 of funds was disbursed to the School in annual installments of \$100,000, beginning July 2014. These payments were initially recorded as an unsecured non-interest bearing note payable. As of June 30, 2017 and 2016, the School had received total proceeds under this agreement of \$300,000 and \$200,000, respectively. Provided the School remains a Challenge Foundation Academy in good standing, the note will be forgiven at a rate of \$100,000 per year in July 2018, 2019, and 2020. In the event that the Affiliate School Agreement between Team CFA Foundation and the School is terminated before July 1, 2020, the School will be required to pay to the order of Team CFA Foundation the remaining unforgiven principal balance outstanding, plus default interest of 6% per annum, within 30 days of the date of termination.

NOTE 4 - RESTRICTED NET ASSETS

Temporarily restricted net assets represent resources received from grantors and donors but not expended for the restricted purposes as of the end of the reporting period. As of June 30, 2017 and 2016, temporarily restricted net assets of \$56,169 and \$74,097, respectively, were available for technology costs.

Net assets were released from donor restrictions by incurring expenses or purchasing assets satisfying the restricted purpose. The following purpose restrictions were accomplished during the years ended June 30:

	<u>2017</u>	<u>2016</u>
Technology costs	\$ 17,928	\$ 5,481
Start-up costs	<u>-</u>	<u>40,175</u>
	\$ <u>17,928</u>	\$ <u>45,656</u>

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 5 - RETIREMENT PLAN

The School provides retirement benefits covering substantially all full-time employees. Employees are eligible to participate in a School-sponsored Section 403(b) plan. Under this plan, the School matches employee contributions up to 3% of compensation, as defined in the Plan Document. Retirement plan expense under the plan was \$9,196 and \$3,490 for the years ended June 30, 2017 and 2016, respectively.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction to students residing in Marion County, Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana.

In addition, deposits maintained at The Huntington National Bank and are insured up to the FDIC insurance limit.

NOTE 7 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net deficiency. Accordingly, certain expenses have been allocated between program and management services.