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December 19, 2018


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, 2017 to June 30, 2018. 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, 2018 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.

In addition to the report presented herein, a Supplemental Audit Report for Indianapolis Academy of Excellence, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

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


Paul D. Joyce, CPA
State Examiner

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



TABLE OF CONTENTS

| | Page |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 - 2 |
| FINANCIAL STATEMENTS | |
| Statements of Financial Position | 3 |
| Statements of Activities and Change in Net Assets (Deficiency) | 4 |
| Statements of Functional Expenses | 5 |
| Statements of Cash Flows | 6 |
| Notes to the Financial Statements | 7 - 10 |
| OTHER REPORT | 11 |



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, 2018 and 2017, the related statements of activities and change in net 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 Indianapolis Academy of Excellence, Inc. as of June 30, 2018 and 2017, and the changes in its net 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

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

Indianapolis, Indiana

December 11, 2018

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2018 and 2017**

| | <u>2018</u> | <u>2017</u> |
|---|--------------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 160,123 | \$ 105,379 |
| Grants receivable | 45,125 | 19,397 |
| Prepaid expenses | <u>31,780</u> | <u>12,311</u> |
| <i>Total current assets</i> | <u>237,028</u> | <u>137,087</u> |
| PROPERTY AND EQUIPMENT | | |
| Furniture and equipment | 292,053 | 284,214 |
| Leasehold improvements | 34,178 | 34,178 |
| Vehicles | 21,929 | 21,929 |
| Textbooks | 39,400 | 39,400 |
| Less: accumulated depreciation | <u>(302,975)</u> | <u>(221,835)</u> |
| <i>Property and equipment, net</i> | <u>84,585</u> | <u>157,886</u> |
| TOTAL ASSETS | <u><u>\$ 321,613</u></u> | <u><u>\$ 294,973</u></u> |
| LIABILITIES AND NET DEFICIENCY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 81,917 | \$ 72,953 |
| Refundable advance | <u>-</u> | <u>14,323</u> |
| <i>Total current liabilities</i> | <u>81,917</u> | <u>87,276</u> |
| LONG-TERM LIABILITIES | | |
| Deferred rent payable | 20,424 | 40,847 |
| Forgivable note payable | <u>300,000</u> | <u>300,000</u> |
| <i>Total long-term liabilities</i> | <u>320,424</u> | <u>340,847</u> |
| <i>Total liabilities</i> | <u>402,341</u> | <u>428,123</u> |
| NET DEFICIENCY | | |
| Unrestricted | (113,343) | (189,319) |
| Temporarily restricted | <u>32,615</u> | <u>56,169</u> |
| <i>Total net deficiency</i> | <u>(80,728)</u> | <u>(133,150)</u> |
| TOTAL LIABILITIES AND NET DEFICIENCY | <u><u>\$ 321,613</u></u> | <u><u>\$ 294,973</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 DEFICIENCY
For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | | | <u>2017</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 | \$ 1,002,284 | \$ - | \$ 1,002,284 | \$ 749,261 | \$ - | \$ 749,261 |
| Grant revenue | 446,951 | - | 446,951 | 323,951 | - | 323,951 |
| Student fees | 644 | - | 644 | 696 | - | 696 |
| Contributions | 29,793 | - | 29,793 | 28,548 | - | 28,548 |
| Other income | 13,262 | - | 13,262 | 11,598 | - | 11,598 |
| Net assets released from restrictions | 23,554 | (23,554) | - | 17,928 | (17,928) | - |
| <i>Total revenue and support</i> | <u>1,516,488</u> | <u>(23,554)</u> | <u>1,492,934</u> | <u>1,131,982</u> | <u>(17,928)</u> | <u>1,114,054</u> |
| EXPENSES | | | | | | |
| Program services | 1,147,026 | - | 1,147,026 | 910,689 | - | 910,689 |
| Management and general | 293,486 | - | 293,486 | 253,853 | - | 253,853 |
| <i>Total expenses</i> | <u>1,440,512</u> | <u>-</u> | <u>1,440,512</u> | <u>1,164,542</u> | <u>-</u> | <u>1,164,542</u> |
| CHANGE IN NET ASSETS (DEFICIENCY) | 75,976 | (23,554) | 52,422 | (32,560) | (17,928) | (50,488) |
| NET ASSETS (DEFICIENCY), BEGINNING 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> |
| NET ASSETS (DEFICIENCY), END OF YEAR | <u>\$ (113,343)</u> | <u>\$ 32,615</u> | <u>\$ (80,728)</u> | <u>\$ (189,319)</u> | <u>\$ 56,169</u> | <u>\$ (133,150)</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, 2018 and 2017

| | 2018 | | | 2017 | | |
|---|------------------------------------|--|---------------------|------------------------------------|--|---------------------|
| FUNCTIONAL EXPENSES | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> |
| Salaries and wages | \$ 496,695 | \$ 167,205 | \$ 663,900 | \$ 386,826 | \$ 145,079 | \$ 531,905 |
| Employee benefits | 65,410 | 28,953 | 94,363 | 58,085 | 16,764 | 74,849 |
| Staff development | 14,552 | - | 14,552 | 10,902 | - | 10,902 |
| Professional services | 135,600 | 62,697 | 198,297 | 52,863 | 61,283 | 114,146 |
| Repairs and maintenance | 21,498 | - | 21,498 | 24,936 | - | 24,936 |
| Food service | 87,303 | - | 87,303 | 74,901 | - | 74,901 |
| Travel | 2,016 | 10 | 2,026 | 1,020 | 69 | 1,089 |
| Equipment | 22,008 | - | 22,008 | 11,099 | - | 11,099 |
| Classroom, kitchen, and office supplies | 44,541 | 6,313 | 50,854 | 19,432 | 6,806 | 26,238 |
| Occupancy | 170,926 | - | 170,926 | 160,349 | - | 160,349 |
| Depreciation | 81,140 | - | 81,140 | 106,949 | - | 106,949 |
| Insurance | - | 16,210 | 16,210 | - | 14,225 | 14,225 |
| Information technology | 2,962 | - | 2,962 | - | - | - |
| Other | 2,375 | 12,098 | 14,473 | 3,327 | 9,627 | 12,954 |
| | | | | | | |
| <i>Total functional expenses</i> | \$ 1,147,026 | \$ 293,486 | \$ 1,440,512 | \$ 910,689 | \$ 253,853 | \$ 1,164,542 |

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, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets (deficiency) | \$ 52,422 | \$ (50,488) |
| Adjustments to reconcile change in net assets (deficiency) to net cash provided by operating activities: | | |
| Depreciation | 81,140 | 106,949 |
| Changes in certain assets and liabilities: | | |
| Grants receivable | (25,728) | 31,328 |
| Prepaid expenses | (19,469) | (2,441) |
| Accounts payable and accrued expenses | 8,964 | (47,930) |
| Refundable advances | (14,323) | 14,323 |
| Deferred rent payable | (20,423) | (20,423) |
| | <u>62,583</u> | <u>31,318</u> |
| <i>Net cash provided by operating activities</i> | 62,583 | 31,318 |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (7,839) | (72,448) |
| FINANCING ACTIVITIES | | |
| Proceeds from forgivable note payable | <u>-</u> | <u>100,000</u> |
| NET CHANGE IN CASH | 54,744 | 58,870 |
| CASH, BEGINNING OF YEAR | <u>105,379</u> | <u>46,509</u> |
| CASH, END OF YEAR | <u>\$ 160,123</u> | <u>\$ 105,379</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, 2018 and 2017

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 net 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. 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, 2018 and 2017, 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, 2018 and 2017

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 2014 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 |

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 December 11, 2018, 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 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 \$132,171 and \$124,592 for the years ended June 30, 2018 and 2017, respectively.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 2 - LEASES, Continued

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

| | | |
|------|----|---------|
| 2019 | \$ | 145,644 |
| 2020 | | 4,140 |
| 2021 | | 4,410 |

NOTE 3 - FORGIVABLE NOTE PAYABLE

Prior to June 30, 2018, the School had an Affiliate School Agreement (the "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. According to the Agreement, provided the School remained a Challenge Foundation Academy in good standing, the note would be forgiven at a rate of \$100,000 per year in July 2018, 2019, and 2020. Subsequent to June 30, 2018, Team CFA Foundation terminated its relationship with the School, with no definitive agreement in place to address the \$300,000 outstanding forgivable note payable. As of December 11, 2018, the date these financial statements were available to be issued, none of the note payable to Team CFA Foundation has been forgiven. The School believes it has substantially met the requirements of the Agreement and anticipates forgiveness of the note payable at a rate of \$100,000 per year in July 2019, 2020, and 2021.

NOTE 4 - RESTRICTED NET ASSETS

Temporarily restricted net assets represent resources received from grantors and donors but not expended for their restricted purposes as of the end of the reporting periods. Temporarily restricted net assets as of June 30, 2018 and 2017 and net assets released from restrictions for the years then ended all pertain to technology costs.

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 \$7,295 and \$9,196 for the years ended June 30, 2018 and 2017, respectively.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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.

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, 2018 and 2017, 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 statements of activities and change in net deficiency. Accordingly, certain expenses have been allocated between program services and management and general expenses.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

OTHER REPORT

For the Year Ended June 30, 2018

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

Supplemental Audit Report of Indianapolis Academy of Excellence, 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*.