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October 30, 2019

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


We have reviewed the audit report of Indianapolis Academy of Excellence, Inc., which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

We call your attention to the Emphasis of Matter Regarding School Closure paragraph included in the *Independent Auditors' Report* and further detailed in Note 1.

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, 2019 and 2018



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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. (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter Regarding School Closure

As discussed in Note 1, the School's Board of Directors voted to cease operations of the School effective June 30, 2019 after the School's charter was not renewed by the Indiana Charter School Board. The School is in the process of liquidation; however, the accompanying financial statements have not been adjusted to reflect the liquidation basis of accounting. There is no assurance that the School will be able to meet its financial obligations.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large initial "D" and is positioned below the printed name "DONOVAN".

Indianapolis, Indiana
October 10, 2019

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 94,258	\$ 160,123
Grants receivable	38,253	45,125
Prepaid expenses	1,592	31,780
	<hr/>	<hr/>
<i>Total current assets</i>	134,103	237,028
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Furniture and equipment	-	292,053
Leasehold improvements	-	34,178
Vehicles	-	21,929
Textbooks	-	39,400
Less: accumulated depreciation	-	(302,975)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	-	84,585
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 134,103</u>	<u>\$ 321,613</u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 47,188	\$ 81,917
Landlord payable	610,013	-
Note payable	300,000	300,000
	<hr/>	<hr/>
<i>Total current liabilities</i>	957,201	381,917
LONG-TERM LIABILITIES		
Deferred rent payable	-	20,424
	<hr/>	<hr/>
<i>Total liabilities</i>	957,201	402,341
	<hr/>	<hr/>
NET ASSETS (DEFICIENCY)		
Without donor restrictions	(823,098)	(113,343)
With donor restrictions	-	32,615
	<hr/>	<hr/>
<i>Total net deficiency</i>	(823,098)	(80,728)
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET DEFICIENCY	<u>\$ 134,103</u>	<u>\$ 321,613</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, 2019 and 2018

	<u>2019</u>			<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT						
State education support	\$ 1,122,234	\$ -	\$ 1,122,234	\$ 1,002,284	\$ -	\$ 1,002,284
Grant revenue	506,338	-	506,338	446,951	-	446,951
Student fees	2,063	-	2,063	644	-	644
Contributions	5,292	-	5,292	29,793	-	29,793
Other income	20,591	-	20,591	13,262	-	13,262
Net assets released from restrictions	32,615	(32,615)	-	23,554	(23,554)	-
<i>Total revenue and support</i>	<u>1,689,133</u>	<u>(32,615)</u>	<u>1,656,518</u>	<u>1,516,488</u>	<u>(23,554)</u>	<u>1,492,934</u>
EXPENSES						
Program services	1,400,474	-	1,400,474	1,147,026	-	1,147,026
Management and general	340,616	-	340,616	293,486	-	293,486
<i>Total expenses</i>	<u>1,741,090</u>	<u>-</u>	<u>1,741,090</u>	<u>1,440,512</u>	<u>-</u>	<u>1,440,512</u>
CHANGE IN NET DEFICIENCY FROM OPERATIONS	<u>(51,957)</u>	<u>(32,615)</u>	<u>(84,572)</u>	<u>75,976</u>	<u>(23,554)</u>	<u>52,422</u>
NON-OPERATING EXPENSES						
Property and equipment abandonment and donation	47,785	-	47,785	-	-	-
Landlord charges	610,013	-	610,013	-	-	-
<i>Total non-operating expenses</i>	<u>657,798</u>	<u>-</u>	<u>657,798</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET DEFICIENCY	(709,755)	(32,615)	(742,370)	75,976	(23,554)	52,422
NET ASSETS (DEFICIENCY), BEGINNING 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>
NET ASSETS (DEFICIENCY), END OF YEAR	<u>\$ (823,098)</u>	<u>\$ -</u>	<u>\$ (823,098)</u>	<u>\$ (113,343)</u>	<u>\$ 32,615</u>	<u>\$ (80,728)</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, 2019 and 2018

	<u>2019</u>			<u>2018</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 731,477	\$ 190,046	\$ 921,523	\$ 496,695	\$ 167,205	\$ 663,900
Employee benefits	99,806	33,039	132,845	65,410	28,953	94,363
Staff development	14,214	-	14,214	14,552	-	14,552
Professional services	134,597	71,846	206,443	153,476	62,697	216,173
Repairs and maintenance	19,650	-	19,650	21,498	-	21,498
Food service	88,864	-	88,864	87,303	-	87,303
Transportation	57,505	264	57,769	2,016	10	2,026
Equipment	48,304	-	48,304	22,008	-	22,008
Classroom, kitchen, and office supplies	16,492	4,769	21,261	26,665	6,313	32,978
Occupancy	134,322	-	134,322	170,926	-	170,926
Depreciation	47,221	-	47,221	81,140	-	81,140
Authorizer fees	-	1,953	1,953	-	-	-
Insurance	-	27,706	27,706	-	16,210	16,210
Information technology	5,181	-	5,181	2,962	-	-
Other	2,841	10,993	13,834	2,375	12,098	14,473
<i>Total functional expenses</i>	<u>\$ 1,400,474</u>	<u>\$ 340,616</u>	<u>\$ 1,741,090</u>	<u>\$ 1,147,026</u>	<u>\$ 293,486</u>	<u>\$ 1,440,512</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net deficiency	\$ (742,370)	\$ 52,422
Adjustments to reconcile change in net deficiency to net cash provided by (used in) operating activities:		
Depreciation	47,221	81,140
Property and equipment abandonment and donation	47,785	-
Changes in certain assets and liabilities:		
Grants receivable	6,872	(25,728)
Prepaid expenses	30,188	(19,469)
Accounts payable and accrued expenses	(34,729)	8,964
Landlord payable	610,013	-
Refundable advances	-	(14,323)
Deferred rent payable	(20,424)	(20,423)
	<u>(55,444)</u>	<u>62,583</u>
<i>Net cash provided by (used in) operating activities</i>	(55,444)	62,583
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(10,421)</u>	<u>(7,839)</u>
NET CHANGE IN CASH	(65,865)	54,744
CASH, BEGINNING OF YEAR	<u>160,123</u>	<u>105,379</u>
CASH, END OF YEAR	<u>\$ 94,258</u>	<u>\$ 160,123</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, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indianapolis Academy of Excellence, Inc. (the “School”) was a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operated a public charter school established under Indiana Code 20-24 and was sponsored by the Indiana Charter School Board.

The School did not meet the sponsor’s requirements and the charter, which ended June 30, 2019, was not renewed. The School’s Board of Directors voted to cease operations of the School effective June 30, 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 (deficiency) 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. Accordingly, the School 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 School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

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:

Furniture and equipment	3 years
Leasehold improvements	10 years
Vehicles	5 years
Textbooks	4 years

The School closed as of June 30, 2019 and donated its property and equipment to Paramount Schools of Excellence. The leasehold improvements were abandoned.

Deferred Rent Payable – The operating lease on the school facility terminated June 30, 2019 and contained annual provisions for future rent increases. In accordance with generally accepted accounting principles, over the life of the lease, the School recorded 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 was reflected as deferred rent payable in the statements of financial position. The deferred rent payable balance was reduced to zero as of June 30, 2019.

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, 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 October 10, 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.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 2 - LANDLORD PAYABLE

Landlord payable represents an amount owed to Challenge Foundation Properties, Inc. (“CFP”), the owners of the school building formerly occupied by the School. CFP completed various repairs and improvements to the school building, none of which had been charged to the School during its active operation. The School received an invoice from CFP following the announcement of the School’s closure in the amount of \$610,013.

NOTE 3 - NOTE PAYABLE

Through June 30, 2018, the School had an Affiliate School Agreement (the “Agreement”) with Team CFA Foundation, whereby a total of \$300,000 of funds were 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. In 2019, 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 October 10, 2019, the date these financial statements were available to be issued, none of the note payable to Team CFA Foundation has been officially forgiven. As such, the full balance of the note payable is reflected on the statements of financial position as of June 30, 2019.

NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent resources received from grantors and donors but not expended for their restricted purposes as of the end of the reporting periods. Net assets with donor restrictions as of June 30, 2018 totaled \$32,615. All donor restrictions were met during the year ended June 30, 2019.

NOTE 5 - RETIREMENT PLAN

The School provided retirement benefits covering substantially all full-time employees. Employees were eligible to participate in a School-sponsored Section 403(b) plan. Under this plan, the School matched employee contributions up to 3% of compensation, as defined in the plan document. Retirement plan expense under the plan was \$10,981 and \$7,295 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.

INDIANAPOLIS ACADEMY OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

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 statements of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 totaled \$132,511, all of which are available to meet cash needs for general expenditures within a year.

While the School has \$132,511 in financial assets available to meet cash needs for general expenditures within one year, it also has \$957,201 in current liabilities as of June 30, 2019. This deficit in financial assets net of financial liabilities raises significant doubt of the School's ability to repay its obligations.

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.

INDIANAPOLIS ACADEMY OF EXCELLENCE, 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 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*.