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February 19, 2020

Charter School Board
Drexel Foundation for Educational Excellence, Inc.
d/b/a Thea Bowman Leadership Academy
975 West 6th Avenue
Gary, IN 46402


We have reviewed the audit report of Drexel Foundation for Educational Excellence, Inc. d/b/a Thea Bowman Leadership Academy 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 Drexel Foundation for Educational Excellence, Inc. d/b/a Thea Bowman Leadership Academy 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.

We call your attention to the finding on page 21. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding.

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

In addition to the report presented herein, a Supplemental Audit Report for Drexel Foundation for Educational Excellence, Inc. d/b/a Thea Bowman Leadership Academy was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY

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
Drexel Foundation for Educational Excellence, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Drexel Foundation for Educational Excellence, Inc. d/b/a Thea Bowman Leadership Academy, which comprise the statements of financial position as of June 30, 2019 and 2018, 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 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 Drexel Foundation for Educational Excellence, Inc. d/b/a Thea Bowman Leadership 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.

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 January 29, 2020 on our consideration of Drexel Foundation for Educational Excellence, 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 Drexel Foundation for Educational Excellence, Inc.’s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana
January 29, 2020

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,109,209	\$ 947,100
Cash - restricted for debt service	262,500	247,500
Grants receivable	544,938	504,406
Other receivables	-	14,500
Prepaid expenses	<u>84,055</u>	<u>165,593</u>
<i>Total current assets</i>	<u>2,000,702</u>	<u>1,879,099</u>
PROPERTY AND EQUIPMENT		
Land	859,886	859,886
Buildings and improvements	16,911,568	16,906,781
Furniture, fixtures, and equipment	4,475,142	4,406,880
Textbooks	301,476	251,688
Less: accumulated depreciation	<u>(9,436,587)</u>	<u>(8,576,140)</u>
<i>Property and equipment, net</i>	<u>13,111,485</u>	<u>13,849,095</u>
OTHER ASSETS		
Cash - restricted for debt service	<u>1,391,857</u>	<u>1,375,297</u>
TOTAL ASSETS	<u>\$ 16,504,044</u>	<u>\$ 17,103,491</u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 350,000	\$ 330,000
Accounts payable and accrued expenses	<u>1,272,614</u>	<u>556,803</u>
<i>Total current liabilities</i>	<u>1,622,614</u>	<u>886,803</u>
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	16,640,000	16,990,000
Less: unamortized bond issuance costs	<u>(585,147)</u>	<u>(613,726)</u>
<i>Total long-term liabilities, net of unamortized bond issuance costs</i>	<u>16,054,853</u>	<u>16,376,274</u>
<i>Total liabilities</i>	17,677,467	17,263,077
NET DEFICIENCY, WITHOUT DONOR RESTRICTIONS	<u>(1,173,423)</u>	<u>(159,586)</u>
TOTAL LIABILITIES AND NET DEFICIENCY	<u>\$ 16,504,044</u>	<u>\$ 17,103,491</u>

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

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
State education support	\$ 7,879,436	\$ 8,007,603
Grant revenue	3,294,758	3,943,788
Student fees	88,946	115,438
Contributions	9,868	15,012
Interest	22,520	16,391
Other	56,476	16,500
	<u>11,352,004</u>	<u>12,114,732</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	9,970,803	10,609,892
Management and general	2,395,038	2,500,036
	<u>12,365,841</u>	<u>13,109,928</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS (DEFICIENCY)	(1,013,837)	(995,196)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>(159,586)</u>	<u>835,610</u>
NET DEFICIENCY, END OF YEAR	<u>\$ (1,173,423)</u>	<u>\$ (159,586)</u>

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

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.

d/b/a THEA BOWMAN LEADERSHIP ACADEMY

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	<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, wages, and benefits	\$ 5,538,359	\$ 795,901	\$ 6,334,260	\$ 6,117,639	\$ 1,107,029	\$ 7,224,668
Staff development	150,227	-	150,227	324,188	-	324,188
Professional services	500,593	153,821	654,414	437,417	23,492	460,909
Repairs and maintenance	92,145	-	92,145	97,820	-	97,820
Authorizer oversight fees	-	172,440	172,440	-	173,850	173,850
Food service expense	518,620	-	518,620	480,169	-	480,169
Transportation	58,833	1,844	60,677	103,513	-	103,513
Academic and management services	-	1,095,396	1,095,396	-	995,498	995,498
Advertising	-	8,568	8,568	-	-	-
Classroom, kitchen, and office supplies	429,645	-	429,645	386,840	-	386,840
Occupancy	574,897	-	574,897	603,736	-	603,736
Depreciation	860,447	-	860,447	824,770	-	824,770
Interest	1,191,021	-	1,191,021	1,213,127	-	1,213,127
Insurance	-	152,237	152,237	-	151,657	151,657
Student fundraising	-	4,034	4,034	-	9,642	9,642
Other	56,016	10,797	66,813	20,673	38,868	59,541
<i>Total functional expenses</i>	<u>\$ 9,970,803</u>	<u>\$ 2,395,038</u>	<u>\$ 12,365,841</u>	<u>\$ 10,609,892</u>	<u>\$ 2,500,036</u>	<u>\$ 13,109,928</u>

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

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets (deficiency)	\$ (1,013,837)	\$ (995,196)
Adjustments to reconcile change in net assets (deficiency) to net cash provided by (used in) operating activities:		
Depreciation	860,447	824,770
Amortization	28,579	28,579
Change in certain assets and liabilities:		
Grants receivable	(40,532)	(97,649)
Other receivables	14,500	139,683
Prepaid expenses	81,538	23,508
Accounts payable and accrued expenses	<u>715,811</u>	<u>(101,999)</u>
<i>Net cash provided by (used in) operating activities</i>	<u>646,506</u>	<u>(178,304)</u>
INVESTING ACTIVITIES		
Cash out of certificate of deposit	-	524,038
Purchases of property and equipment	<u>(122,837)</u>	<u>(598,598)</u>
<i>Net cash used in investing activities</i>	<u>(122,837)</u>	<u>(74,560)</u>
FINANCING ACTIVITIES		
Principal repayment of bond payable	<u>(330,000)</u>	<u>(310,000)</u>
NET CHANGE IN CASH	193,669	(562,864)
CASH, BEGINNING OF YEAR	<u>2,569,897</u>	<u>3,132,761</u>
CASH, END OF YEAR	<u>\$ 2,763,566</u>	<u>\$ 2,569,897</u>
CASH, END OF YEAR		
Cash - unrestricted	\$ 1,109,209	\$ 947,100
Cash - restricted for debt service	<u>1,654,357</u>	<u>1,622,797</u>
<i>Total cash, end of year</i>	<u>\$ 2,763,566</u>	<u>\$ 2,569,897</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 1,162,442	\$ 1,184,548

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

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Drexel Foundation for Educational Excellence, Inc. d/b/a Thea Bowman Leadership 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 grades kindergarten through twelve and is sponsored by Trine University. The School served approximately 1,070 and 1,090 students during the 2018-2019 and 2017-2018 school years, respectively. The School utilizes Phalen Leadership Academy-Indiana, Inc. to provide leadership, management, operation, and maintenance services to the School.

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. The net deficiency as of June 30, 2019 and 2018 was 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 school 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.

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.

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.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
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:

Buildings and improvements	15 to 39 years
Furniture, fixtures, and equipment	3 to 7 years
Textbooks	4 years

Bond Issuance Costs – The School incurred costs associated with securing financing under the Indiana Finance Authority Education Facilities Revenue Bonds. Total costs incurred were \$857,349. Amortization is provided on a straight-line basis over the term of the bond (30 years). Accumulated amortization as of June 30, 2019 and 2018 was \$272,199 and \$243,620, respectively. Amortization expense for each of the years ended June 30, 2019 and 2018 was \$-, and is included in interest expense.

Taxes on Income – Drexel Foundation for Educational Excellence, 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 January 29, 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.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 2 - GOING CONCERN CONSIDERATIONS

The School experienced a decline in enrollment during the 2017-2018 school year, which ultimately resulted in nearly a \$1,000,000 loss during the year ended June 30, 2018. During the year ended June 30, 2019, the School reduced expenses by approximately \$745,000, but also incurred an additional \$762,000 decline in revenue. As a result, the School incurred another loss of approximately \$1,000,000 during the year ended June 30, 2019. The School was able to fund operations in part by delaying payment on accounts payable and accrued expenses, which increased approximately \$715,000 as of June 30, 2019 compared to June 30, 2018. Continued losses and delayed payments of liabilities is not a sustainable model for the School.

Phalen Leadership Academy, the School's management company, has been working with School leadership and the Board of Directors to reconfigure the School's budget in order to bring expenses more in line with revenues. Management anticipates the budget reconfiguration will allow for additional expense reductions by combining smaller classrooms to ensure that all classes are full and that resources are maximized. Staffing has also been reduced during the 2019-2020 school year due to the combining smaller classrooms, resulting in a decrease in payroll expenditures as well as a decrease in expenditures related to supplies and materials. Management has also been performing a cost-benefit analysis on each expenditure category to determine the necessity of each expense. The School anticipates these measures will allow the School to continue as a going concern for the foreseeable future.

NOTE 3 - RESTRICTED CASH

The School holds two restricted cash accounts to meet its bond obligations, as follows:

Current asset – cash restricted for debt service – The School transfers funds to this account on a quarterly basis to cover the semi-annual principal and interest payments on the bonds.

Other asset – cash restricted for debt service – This fund is reserved solely for the payment of principal and interest on the bonds in the event that other funding is unavailable to meet payment requirements.

NOTE 4 - BONDS PAYABLE

Bonds payable consists of Indiana Finance Authority Educational Facilities Revenue Bonds, Series 2009. The bond principal is payable in annual installments that increase from \$230,000 to \$2,890,000 through October 2039. Interest payments are made semi-annually at rates that range from 6% to 7% in accordance with the bond agreement. The bond obligation is secured by land, buildings, and improvements.

The bond obligation contains certain covenants that limit the School's ability to create liens, incur indebtedness or guarantees, dispose of assets, or change the nature of the business. The bond obligation also contains financial maintenance covenants establishing a minimum debt service coverage ratio and requiring financial reporting to the lender within certain timelines. The School was in compliance with these covenants as of June 30, 2019.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 4 - BONDS PAYABLE, Continued

Future maturities of the bonds are as follows for the years ending June 30:

2020	\$ 350,000
2021	375,000
2022	395,000
2023	420,000
2024	450,000
Thereafter	<u>15,000,000</u>
Total	<u>\$ 16,990,000</u>

NOTE 5 - LEASES

The School conducts its elementary school operations from facilities leased under a noncancelable operating lease that expires in June 2022. The lease provides for an initial annual rental payment of approximately \$288,000, which increases each year. The School also leases certain items of equipment under leases that are accounted for as operating leases. The equipment leases extend through December 2021.

Expected lease payments are as follows for the years ending June 30:

2020	\$ 287,871
2021	315,918
2022	358,495

NOTE 6 - RETIREMENT PLAN

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. INPRS acts as a common administrative and investment agent for units of state and local government in Indiana. Contribution requirements are determined by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF. The contribution to PERF for other employees was 11.2%. Participants are required to contribute 3% of compensation to an annuity saving account that can be withdrawn when the participant terminates employment. The School voluntarily makes this contribution on behalf of the participants.

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 or PERF. As of June 30, 2018 (the latest year reported), both TRF and PERF were approximately 80% funded. Retirement plan expense was approximately \$280,169 and \$353,000 for the years ended June 30, 2019 and 2018, respectively.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 7 - COMMITMENTS

The School operates under a charter granted by Trine University. As the sponsoring organization, Trine University exercises certain oversight responsibilities. Under this charter, the School agreed to pay to Trine University an annual administrative fee equal to 3% of state tuition payments received. The charter is effective through June 30, 2022 and is renewable thereafter by mutual consent. Payments under this agreement were \$172,440 and \$173,850 for the years ended June 30, 2019 and 2018, respectively.

The School has contracted with Phalen Leadership Academy-Indiana, Inc. to provide leadership, management, operation, and maintenance services. Under the terms of the agreement, the School agreed to pay an amount equal to 10.3% of revenues, as defined, for such services. Management fee expense under this contract was \$1,095,396 and \$995,498 for the years ended June 30, 2019 and 2018, respectively. The contract is effective through June 30, 2021.

The School has contracted with a professional employer organization (“PEO”) to manage its human resource requirements. Under this contract, the School leases its employees from the PEO, and reimburses the PEO for all personnel costs, including salaries and benefits.

NOTE 8 - RISKS AND UNCERTAINTIES

The School provides education 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 grants receivable balance was due from the State of Indiana. In addition, a majority of cash deposits are maintained at BMO Harris Bank, and frequently exceed the FDIC insurance limit.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

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 \$3,308,504, of which \$1,654,147 (excludes restricted cash) is 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 (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.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 23,163
National School Lunch Program	10.555		<u>572,819</u>
<i>Total U.S. Department of Agriculture</i>			<u>595,982</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I Grants to Local Educational Agencies	84.010	19-9460	1,623,702
	84.010	18-9460	
Special Education Cluster			
Special Education - Grants to States	84.027	19611-505-PN01	191,085
Supporting Effective Instruction State Grants	84.367	S367A170013	48,251
Student Support and Academic Enrichment	84.424	S424A180015	101,098
Charter Schools Program	84.282	36995	<u>39,000</u>
<i>Total U.S. Department of Education</i>			<u>2,003,136</u>
<i>Total federal awards expended</i>			<u>\$ 2,599,118</u>

See independent auditors' report and accompanying notes to this schedule

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
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 Drexel Foundation for Educational Excellence, Inc. (the "School") under programs of the federal government for the year ended June 30, 2019. The information in the 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 (deficiency), functional expenses, or cash flows of the School.

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

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



Donovan CPAs

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
Drexel Foundation for Educational Excellence, 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 Drexel Foundation for Educational Excellence, Inc., d/b/a Thea Bowman Leadership Academy (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net assets (deficiency), 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 29, 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 the School'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 the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

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

Indianapolis, Indiana
January 29, 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
Drexel Foundation for Educational Excellence, Inc.

Report on Compliance for Each Major Federal Program

We have audited Drexel Foundation for Educational Excellence, Inc. d/b/a Thea Bowman Leadership Academy's (the "School") 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. The School'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 the School'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 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 each major federal program. However, our audit does not provide a legal determination of the School's compliance.

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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 each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is 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 this matter.

The School's response to the noncompliance finding identified in our audit is described in the corrective action plan on page 22. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-01, that we consider to be a material weakness.

The School's response to the internal control over compliance finding identified in our audit is described in the corrective action plan on page 22. The School'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

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

Indianapolis, Indiana
January 29, 2020

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

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?	Yes
• 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)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	School Breakfast Program
	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.

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

III. Federal Award Findings and Questioned Costs

FINDING 2019-01 CASH MANAGEMENT
MATERIAL WEAKNESS

Criteria

Per 7 CFR 210.14(b) and 7 CFR 220.7(e)(1)(iv), the “school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency”.

Condition

The School was carrying a balance of approximately \$674,000 in its nutrition program fund as of June 30, 2019. Based on the School’s expense reporting, a 3 months average of expenditures would be approximately \$126,000.

Cause

The School has not properly monitored the balance of these funds to make sure funds were expended in a manner to allow for compliance with federal guidelines.

Effect

This material weakness in internal control resulted in the School having an excessive cash balance in its meal program funds and are not in compliance with 7 CFR 210.14(b) and 7 CFR 220.7(e)(1)(iv).

Recommendation

We recommend the School develop internal controls to allow for closer monitoring of the balance of these funds. We also recommend the School proactively communicate the cash management finding to the Indiana Department of Education to discuss a remedial plan of action.

Views of Responsible Officials

The School’s Corrective Action Plan is included on page 22.



Thea Bowman Leadership Academy

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January 29, 2019

Food Authority Cash Balance – in response to the finding on the Food Authority Cash Balance:

TBLA began as its own Food Authority in FY17 –once the transition from the prior FSA was complete, the school had a balance of \$517,000 from the prior partnership. Expenses for the first 6 months of FY20 are averaging \$53k per month so the account should have a balance of approximately \$159,000. The difference of \$515,000 aligns with the amount resulting from the transition and from nutrition support staff that have not been allocated to the grant. The below steps will be taken to resolve the overage:

- a) identify, track and allocate nutrition support staff expenses
- b) calculate the remaining overage
- c) contact the IDOE to develop a remedy plan for the remaining overage

DREXEL FOUNDATION FOR EDUCATIONAL EXCELLENCE, INC.
d/b/a THEA BOWMAN LEADERSHIP 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 Drexel Foundation for Educational 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*.