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August 3, 2015

Charter School Board
The Phalen Leadership Academy – Indiana, Inc.
2323 North Illinois Street
Indianapolis, IN 46208

We have reviewed the Financial Statements and Independent Auditors' Report prepared by CliftonLarsonAllen LLP, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of The Phalen Leadership Academy, Inc., as of June 30, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

**THE PHALEN LEADERSHIP ACADEMY –
INDIANA, INC.
Indianapolis, Indiana**

**FINANCIAL STATEMENTS
June 30, 2014**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Phalen Leadership Academy – Indiana, Inc.
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the The Phalen Leadership Academy – Indiana, Inc. (PLA), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year 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 and the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Phalen Leadership Academy – Indiana, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 30, 2014, on our consideration of The Phalen Leadership Academy – Indiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Phalen Leadership Academy – Indiana, Inc.'s internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Indianapolis, Indiana
December 30, 2014

THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 506,569
Grants receivable	166,836
Prepaid expense and other assets	<u>60,690</u>
Total current assets	<u>734,095</u>

FURNITURE AND EQUIPMENT

Furniture and equipment	281,951
Books and educational materials	125,194
Computer software	20,300
Computer equipment	<u>82,663</u>
Total, at cost	510,108
Less accumulated depreciation	<u>85,496</u>
Total furniture and equipment	<u>424,612</u>

TOTAL ASSETS

\$ 1,158,707

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 22,146
Accrued liabilities	<u>79,009</u>
Total liabilities	<u>101,155</u>

NET ASSETS

Unrestricted	907,552
Temporarily restricted	<u>150,000</u>
Total net assets	<u>1,057,552</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 1,158,707

The accompanying notes are an integral part of the financial statements.

THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND CONTRIBUTED SUPPORT			
REVENUE			
Contributions and donations	\$ 374,059	\$ 65,000	\$ 439,059
Grant revenue	1,665,749	28,139	1,693,888
School breakfast, lunch and textbook reimbursement	107,270	-	107,270
Other revenue	5,076	-	5,076
Total revenue	<u>2,152,154</u>	<u>93,139</u>	<u>2,245,293</u>
Net assets released from restrictions	<u>758,139</u>	<u>(758,139)</u>	<u>-</u>
 Total revenue and support	 2,910,293	 (665,000)	 2,245,293
EXPENSES			
Program services	1,854,764	-	1,854,764
Supporting services			
General and administrative	<u>518,379</u>	<u>-</u>	<u>518,379</u>
 Total expenses	 <u>2,373,143</u>	 <u>-</u>	 <u>2,373,143</u>
CHANGE IN NET ASSETS	537,150	(665,000)	(127,850)
NET ASSETS, BEGINNING OF YEAR	<u>370,402</u>	<u>815,000</u>	<u>1,185,402</u>
NET ASSETS, END OF YEAR	<u>\$ 907,552</u>	<u>\$ 150,000</u>	<u>\$ 1,057,552</u>

The accompanying notes are an integral part of the financial statements.

THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

	Program Service Expenses			Supporting Services	Total Expenses
	Grants	Academics	Total Program Services		
Salaries and benefits	\$ 296,042	\$ 688,799	\$ 984,841	\$ 341,679	\$ 1,326,520
Professional services	-	1,780	1,780	(905)	875
Information technology	3,750	43,514	47,264	30,519	77,783
Legal and accounting	-	-	-	11,201	11,201
Professional development	15,943	4,687	20,630	6,150	26,780
Cleaning services	-	36,393	36,393	11,692	48,085
Security services	-	625	625	-	625
Utilities	-	58,232	58,232	38,769	97,001
Materials and supplies	33,222	52,974	86,196	19,917	106,114
Nutritional support	-	112,165	112,165	1,336	113,501
Sales, marketing and community relations	-	43,997	43,997	966	44,963
Travel and entertainment	2,798	-	2,798	15,871	18,669
Rent and facilities	-	350,180	350,180	27,032	377,212
Depreciation	-	85,496	85,496	-	85,496
Insurance	-	11,261	11,261	13,235	24,495
Repairs and maintenance	-	12,909	12,909	628	13,536
Miscellaneous	-	-	-	288	288
	<u>\$ 351,755</u>	<u>\$ 1,503,010</u>	<u>\$ 1,854,764</u>	<u>\$ 518,379</u>	<u>\$ 2,373,143</u>

The accompanying notes are an integral part of the financial statements.

THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (127,850)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	85,496
Effects of changes in operating assets and liabilities	
Grants receivable	648,164
Prepaid expense and other assets	(60,690)
Accounts payable	7,742
Accrued liabilities	<u>79,009</u>
Net cash provided by operating activities	<u>631,871</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(510,108)</u>
Net cash used in investing activities	<u>(510,108)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	121,763
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>384,806</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 506,569</u></u>

The accompanying notes are an integral part of the financial statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Phalen Leadership Academy – Indiana, Inc. (the School, PLA) was incorporated in 2012, under the laws of the State of Indiana and commenced its start-up period in March 2012 with its first school year operations commencing August 2013. The School is an inner-city Indianapolis charter school that provides a high quality, tuition free school that helps children excel in their academics and grow as well-rounded individuals through a safe and caring learning environment.

NET ASSET CLASSIFICATIONS

The financial statements have been prepared in accordance with the Financial Accounting Standards Board's guidance applicable to Not-for-Profit Organizations, which requires, among other things, that the financial statements report the changes in total and of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted and permanently restricted. The following classes of net assets are maintained:

Unrestricted net assets

The unrestricted net asset class includes general assets and liabilities of PLA. The unrestricted net assets of PLA may be used at the discretion of management to support PLA's purposes and operations.

Temporarily restricted net assets

The temporarily restricted net asset class includes assets of PLA related to contributions and support with explicit donor-imposed restrictions that have not been met as to a specified purpose, or to later periods of time or after specified dates. Unconditional promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets. PLA has certain gift funds temporarily restricted to provide education assistance to staff members and also unexpended grant amounts relating to completion of a specific project.

Permanently restricted net assets

The permanently restricted net asset class includes assets of PLA for which there are donor imposed stipulations that the contribution be maintained for endowment purposes. Donor-imposed restrictions limiting the use of the assets or its economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. Permanently restricted net assets include donations with stipulations the resources be maintained permanently. Generally, the income earned on the assets is available for general use and may be board designated by board-imposed stipulations. PLA had no permanently restricted net assets as of June 30, 2014.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, PLA considers only bank demand deposits to be cash equivalents.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GRANTS RECEIVABLE

Grants receivable represent the uncollected portion of funds from grants awarded to the School. Management has deemed these amounts to be fully collectible within one year.

FURNITURE AND EQUIPMENT

Furniture and equipment are reported at cost, less accumulated depreciation. Improvements and replacements of major property additions are capitalized. Repairs, maintenance and minor replacements are expensed.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets which are as follows:

Furniture and equipment	7 - 15 years
Computer software and equipment	3 years
Books and educational materials	5 years

SUPPORT AND REVENUE

PLA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Parent fees are recorded when received with the receivable, allowance, bad debt expense and deferred revenue adjusted on an annual basis.

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no contributions of services for the year ended June, 30, 2014.

Volunteers provide program services through the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria. Such services include volunteering at events, in classrooms and clerical assistance.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ADVERTISING

PLA expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2014 totaled \$10,280.

IMPAIRMENT OF LONG-LIVED ASSETS

On an ongoing basis, the Organization reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated are less than the carrying value of the related asset. If impaired, the assets are adjusted to fair value based on the discounted cash flows.

INCOME TAXES

PLA files income tax returns in the United States. Filings in the United States are with the federal jurisdiction and one state jurisdiction. PLA is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Organization is not considered to be a private foundation. PLA is subject to unrelated business income tax on any activities unrelated to its tax exempt purpose.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The U.S. federal and state income tax returns of PLA are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed. Filings for tax returns filed for tax years after 2013 are still subject to examination as of June 30, 2014.

SUBSEQUENT EVENTS

Management evaluated subsequent events through December 30, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to December 30, 2014 that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2014.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF GRANTS/CONTRACTS FUNDING

PLA received funds through the following grants and contracts for the period July 1, 2013 to June 30, 2014.

<u>Funding Source</u>	<u>CFDA #</u>	<u>Grant Contract Number</u>	<u>Grant Contract Period</u>	<u>Total Grant</u>	<u>Recognized Support</u>
Federal					
Indiana Department of Education	84.282	A58-3-13SS-1072	8/1/12 – 8/19/2015	\$ 717,000	\$ 339,742
Indiana Department of Education	84.010	14-9925	Reimbursement	302,337	301,676
Indiana Department of Education	84.027	14214-583-PN01	Reimbursement	30,991	28,138
Indiana Department of Education	10.555		Reimbursement	<u>94,480</u>	<u>94,480</u>
Total Federal government				1,144,808	764,036
Foundation and corporate					
The Mind Trust, Inc.		NA	3/5/12 – 6/30/15	1,000,000	-0-
IU Health Foundation		N/A	Equipment	50,000	50,000
Kaboom		N/A	Equipment	<u>15,000</u>	<u>15,000</u>
Total Foundation and corporate				<u>1,065,000</u>	<u>65,000</u>
Total grants and contracts				<u>\$ 2,209,808</u>	<u>\$ 829,036</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 – CONCENTRATION OF CREDIT RISK

PLA maintains its cash in bank accounts at a single financial institution. At June 30, 2014, balances in the Organization's deposit accounts were insured by the FDIC up to \$250,000 per depositor bank. As of June 30, 2014 and 2013, the Organization has cash balances on deposit in excess of insured limits.

Credit risk related to grants receivable is limited due to the School's ability to accomplish the terms of the grants. No credit losses related to grants receivable were incurred during the year ending June 30, 2014.

PLA receives operating funds from the Indiana Department of Education which amounted to 45% of the total revenue and contributed support. Operating revenues are determined under a state funding formula based on the number of students enrolled during the school year.

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 4 – COMMITMENTS

PLA has entered into an operating lease arrangements for the rental of school facility, expiring in June 2023. Minimum rentals for years subsequent to June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 429,096
2016	433,387
2017	437,721
2018	442,098
2019 and thereafter	<u>2,277,696</u>
	<u>\$ 4,019,998</u>

Total lease expense for the year ended June 30, 2014 under the this lease amounted to \$377,212.

NOTE 5 – RETIREMENT PLANS

PLA has a 403(b) retirement plan. The plan is contributory only and requires no contribution by PLA. PLA does contribute 7.5% of the salary for all teaching staff. The plan is qualified under Section 403(b)(9) of the Internal Revenue Code. Total contributions to the plan for the year ending June 30, 2014 were \$45,894.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 – RELATED PARTY TRANSACTIONS

PLA is a wholly owned subsidiary of Entrepreneurial Ventures in Education, Inc. d/b/a Summer Advantage (Summer Advantage). The School receives support from Summer Advantage for operations and equipment. There was no support received from Summer Advantage during the year ended June 30, 2014 and there were no amounts due to or from Summer Advantage at June 30, 2014.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$150,000 at June 30, 2014 are restricted for time restrictions that are expected to expire within one year.

During the year ended June 2014, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or time restrictions that have been satisfied.

Playground equipment	\$ 65,000
Special Education grant	28,139
Time restriction satisfied	<u>665,000</u>
	<u>\$ 758,139</u>

This information is an integral part of the accompanying financial statements.

**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 and Management
The Phalen Leadership Academy – Indiana, Inc.
Indianapolis, Indiana

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 The Phalen Leadership Academy – Indiana, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Phalen Leadership Academy – Indiana, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

CliftonLarsonAllen LLP

Indianapolis, Indiana
December 30, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL
PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
The Phalen Leadership Academy – Indiana, Inc.
Indianapolis, IN

Report on Compliance for Each Major Federal Program

We have audited The Phalen Leadership Academy – Indiana, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Phalen Leadership Academy – Indiana, Inc.'s major federal programs for the year ended June 30, 2104. The Phalen Leadership Academy – Indiana, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Phalen Leadership Academy – Indiana, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Phalen Leadership Academy – Indiana, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, The Phalen Leadership Academy – Indiana, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of The Phalen Leadership Academy – Indiana, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Phalen Leadership Academy – Indiana, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the 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 OMB Circular A-133, 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 Phalen Leadership Academy – Indiana, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of The Phalen Leadership Academy – Indiana, Inc. as of and for the year ended June 30, 2014, and have issued our report thereon dated December 30, 2014, which contained an unmodified opinion on those financial statements. 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 OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

Indianapolis, IN
December 30, 2014

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor Agency/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Number	Total Federal Expenditures
U.S. Department of Education:			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants	84.010	14-9925	\$ 301,676
Title II grant	84.367		7,329
Special Education Cluster (IDEA)			
Specials Education Grants to States	84.027	14214-583-PN01	28,138
Special Education Cluster (IDEA)			
Specials Education Grants to States	84.282	A58-3-13SS-1072	<u>324,773</u>
Total U.S. Department of Education			661,916
U.S. Department of Agriculture			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	14-9925	<u>94,480</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 756,396</u></u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of the The Phalen Leadership Academy – Indiana, Inc. under programs financed by the U.S. government for the year ended June 30, 2014. The Schedule has been prepared in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

For purposes of the Schedule, federal awards include the following:

- Direct federal awards.
- Pass-through funds received from the Indiana Department of Education made under federally sponsored programs.

There are no noncash federal awards, loans or guarantees.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2014

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.282	CSP Implementation

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

Section II – Financial Statement Findings

None.

**THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SUMMARY OF PRIOR YEAR FINDINGS
Year Ended June 30, 2014**

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – Summary Schedule of Prior Findings

This section is not applicable as this is a first year audit.