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February 13, 2017

Charter School Board
Alternatives in Education, Inc.
d/b/a Marion Academy
2107 N. Riley Ave
Indianapolis, IN 46218

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Greenwalt CPAs, Inc., Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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 Alternatives in Education, Inc. d/b/a Marion Academy, as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for Alternatives in Education, Inc. d/b/a Marion 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

Paul D. Joyce, CPA
State Examiner

ALTERNATIVES IN EDUCATION, INC.
D/B/A MARION ACADEMY

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

JUNE 30, 2016

GREENWALT CPAs

We Deliver Peace of Mind

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GREENWALT CPAs

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Alternatives in Education, Inc. d/b/a Marion Academy:

We have audited the accompanying financial statements of Alternatives in Education, Inc. d/b/a Marion Academy (Indiana public charter school), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flow for the year 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources,* and *Guidelines of Audits of Charter Schools performed by Private Examiners* established by the Indiana State Board of Accounts. 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 auditor considers internal control relevant to the Marion Academy'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 Marion Academy'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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion Academy as of June 30, 2016, 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.

Greenwalt CPAs, Inc.

January 27, 2017

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

CURRENT ASSETS	
Cash	$ 184,894
Grants receivable	161,553
Prepaid expenses	27,550
Total current assets	373,997
PROPERTY AND EQUIPMENT, NET	506,914
Total assets	$ 880,911

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 33,922
Payroll and other accrued expenses	31,032
Deferred rent expense	37,000
Current portion of note and loan payables	83,811
Total current liabilities	185,765
LONG-TERM LIABILITIES	
Note and loan payables, net of discount	557,592
Total liabilities	743,357
COMMITMENTS (NOTES 3 AND 4)	
NET ASSETS	
Unrestricted	80,436
Unrestricted - board designated	10,000
Total unrestricted net assets	90,436
Temporarily restricted	47,118
Total net assets	137,554
Total liabilities and net assets	$ 880,911

See accompanying notes to financial statements.

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND SUPPORT			
State education support	$ 1,573,193	$ -	$ 1,573,193
Federal funding	546,644	-	546,644
Contributions, including in-kind of $181,000	181,025	47,118	228,143
Other	149	-	149
Net assets released from restriction	117,078	(117,078)	-
Total revenue and support	2,418,089	(69,960)	2,348,129
EXPENSES			
Salaries and wages	878,757	-	878,757
Payroll taxes	79,300	-	79,300
Employee benefits	159,955	-	159,955
Professional fees	549,019	-	549,019
Facilities	262,934	-	262,934
Supplies and materials	71,159	-	71,159
Information technology	51,349	-	51,349
Transportation	24,595	-	24,595
School lunch program	20,705	-	20,705
Insurance	55,375	-	55,375
Depreciation and amortization	150,651	-	150,651
Interest	20,317	-	20,317
Loss on disposal of property and equipment	24,157	-	24,157
Other	22,889	-	22,889
Total expenses	2,371,162	-	2,371,162
CHANGE IN NET ASSETS	46,927	(69,960)	(23,033)
NET ASSETS, BEGINNING OF YEAR	43,509	117,078	160,587
NET ASSETS, END OF YEAR	$ 90,436	$ 47,118	$ 137,554

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(23,033)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Depreciation and amortization		150,651
Loss on disposal of property and equipment		24,157
Discount on loan payable		(47,118)
Increase in operating assets:		
Grants receivable		(124,325)
Prepaid expenses		(24,181)
Increase (decrease) in operating liabilities:		
Accounts payable		(69,562)
Payroll and other accrued liabilities		31,032
Deferred rent expense		37,000
Net cash used in operating activities		(45,379)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		(681,722)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note and loan payables		725,000
Payments for note and loan payables		(36,480)
Net cash provided by financing activities		688,520
NET CHANGE IN CASH		(38,581)
CASH, BEGINNING OF YEAR		223,475
CASH, END OF YEAR	$	184,894
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest expense	$	20,317

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ORGANIZATION

Alternatives in Education, Inc. d/b/a Marion Academy is an Indiana public charter high school with a mission to provide students who are not on a traditional academic path with a structured and supportive environment to prepare for either a post-secondary education or a career.

Marion Academy provides students who have been in the juvenile justice system, expelled or are at risk for expulsion with structured opportunities to earn an Indiana Core 40 high school diploma and in demand industry certifications. Graduates will be prepared for post-secondary education or jobs with higher than average wages.

For students who are detained at Marion County Juvenile Detention Center (MCJDC), Marion Academy (through its Hillside Academy program) will work to provide youth with a continuum of educational services to ensure students do not experience a gap in their education while detained at MCJDC.

Marion Academy is designed to ensure that students who are transitioning from another school or from the Hillside Academy program have an educational setting that focuses on preparing them for life after high school.

Marion Academy receives the majority of its funding from the Indiana Department of Education. Their revenues are supplemented with funds from the United States Department of Education, private grants, and in-kind support.

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The accompanying financial statements were prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 support, revenues and expenses during the reporting period. For annual financial reporting purposes, Marion Academy uses a fiscal year that begins on July 1 and ends the following June 30.

CASH AND CASH EQUIVALENTS

Marion Academy considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2016.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization is computed on the straight-line method over estimated useful lives ranging from 3 to 5 years. Marion Academy does not own any real property. Routine maintenance and repairs are charged to expense as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

PROPERTY AND EQUIPMENT, CONTINUED

Property and equipment consist of the following at June 30, 2016:

Equipment	$	249,415
Computer hardware and software		116,988
Textbooks		181,055
Furniture		99,478
		646,936
Accumulated depreciation		(140,022)
	$	506,914

NET ASSETS

In accordance with Accounting Standards for the Preparation of Financial Statement for Not-for-Profit Organizations, Marion Academy is required to report information regarding its financial position and activities according to three classes of net assets.

Marion Academy maintains the following classifications of net assets:

Unrestricted

These include revenue and expenses from the regular operations of Marion Academy, which are at the discretion of management and the Board of Directors.

Unrestricted – Board Designated

Marion Academy's charter is authorized through the Indiana Charter School Board (ICSB). The ICSB requires that each school establish an account held in escrow of $30,000 no later than December of third year of operations. The escrow account is designated for any potential dissolution of Marion Academy. At June 30, 2016, Marion Academy held $10,000 in escrow which has been presented as board designated net assets in the statement of financial position.

Temporarily Restricted

These include donations and grant revenues used to meet expenses of current operations in accordance with restrictions specified by the donors or grantors. 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. Temporarily restricted net assets at June 30, 2016 consist of a contribution related to a below-market interest rate loan. The discount of $47,118 will be released ratably over the life of the loan. See Note 2.

Permanently Restricted

These include assets which the donor has stipulated be maintained in perpetuity. 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. There were no permanently restricted net assets at June 30, 2016.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

REVENUE RECOGNITION

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, Marion Academy 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 year in which educational services are rendered.

A portion of the Marion Academy's revenue is the product of cost reimbursement grants. Accordingly, Marion Academy recognizes revenue under these grants as costs are incurred.

CONTRIBUTIONS

Contributions received are recognized when the donor makes an unconditional promise to give to Marion Academy and are recorded at their fair values as revenues and assets in the period the promise is received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

CONTRIBUTED SERVICES

Pursuant to the Not-for-Profit Organizations Revenue Recognition Accounting Standards for contributed services, contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Marion Academy. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

Marion Academy received $181,000 of in-kind contributions during the years ended June 30, 2016 of rent and Juvenile Detention Center staff services. These in-kind contributions have been included in private funding on the statement of activities. They have been treated as non-cash activities for the purposes of the statement of cash flows.

FUNCTIONAL EXPENSE

A summary of expenses by functional classification for the year ended June 30, 2016 is as follows:

Program	$	1,710,422
Management and Administrative		660,740
Total functional expenses	$	2,371,162

TAX STATUS

Marion Academy is an Indiana non-profit corporation and is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Marion Academy is not considered a private foundation as defined in Section 509(a) of the Internal Revenue Code.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

SUBSEQUENT EVENTS

Subsequent events have been considered through January 27, 2017, which was the date the financial statements were available to be issued. See Note 6.

2. NOTE AND LOAN PAYABLES

Marion Academy has a note payable with a financial lender which expires November 2020. The loan was $350,000 with interest at rate of 5.0% and requires monthly payments including principal and interest of $6,605. At June 30, 2016, the balance outstanding was $313,521.

Marion Academy obtained a loan from the State of Indiana through the Charter and Innovation School Advance Program for $375,000 in January 2016, which matures in July 2026. The interest rate on the loan is 1% per annum and semi-annual of $18,750 principal plus interest will be deducted from Marion Academy's monthly state tuition support payments beginning January 2017. The loan is considered below-market and to reflect the time value of money, the liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 3.5%, which was Marion Academy's long-term borrowing rate at June 30, 2016. The balance on the loan at June 30, 2016 was $375,000, net of unamortized discount of $47,118.

The future aggregate minimum principal payments on the note and loan payable are as follows for the years ending June 30:

2017	$	83,811
2018		105,889
2019		109,388
2020		133,066
2021		70,116
2022		37,500
Thereafter		168,751
		688,521
Less: current portion		(83,811)
Long term portion	$	604,710

3. Lines of Credit

In September of 2015, Marion Academy entered two lines of credit which expire September 2016. The lines allow for maximum borrowings of $50,000 and $165,000 and bear interest at the prime rate (3.50% at June 30, 2016). There were no amounts outstanding on the lines at June 30, 2016. The lines of credit were not renewed.

4. Operating Leases

In June 2015, Marion Academy entered an agreement with The Board of School Commissioners of the City of Indianapolis through June 2022. Under the agreement, Marion Academy is permitted use of the Indianapolis Public Schools (IPS) Building located at 2107 North Riley Avenue in Indianapolis. Base lease payments escalate over the term of the lease. The lease includes a provision for annual enrollment caps. If Marion Academy exceeds the enrollment cap, an additional fee will be due based on the number of students over the cap times the per student rent. The per student rent is based on the annual lease payment divided by the enrollment cap. Rent expense for fiscal year 2016 was $172,000.

Marion Academy also leases office equipment under an agreement which expires August 2020. This lease requires minimum monthly payments of $842 plus various charges for usage overages. Lease expense on equipment was $11,330 for the fiscal year 2016.

Future minimum payments for both of these agreements are as follows for the years ending June 30:

2017	$	160,104
2018		176,604
2019		185,104
2020		202,604
2021		193,763
Thereafter		192,500
Total	$	1,110,679

5. Retirement Plans

Marion Academy provides retirement benefits for teaching personnel by participating in the Indiana State Teachers' Retirement Fund ("TRF"), which is it cost-sharing multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. In 2016, Marion Academy contributed 7.5% of compensation for teaching faculty to TRF. Should Marion Academy elect to withdraw from TRF, Marion Academy could be subject to a withdrawal fee. Marion Academy's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2015 (the latest year reported). TRF was more than 80% funded. A copy of the complete annual report for the year ended June 30, 2015 can be obtained at:

www.in.gov/inprs/files/2015INPRSCAFRBook_Web.pdf

In fiscal year 2016, the retirement plan expense under the TRF was $25,813.

6. Subsequent Events

Subsequent to June 30, 2016 but prior to the date of this report, Marion Academy entered into an agreement for real estate consulting services. The expected liability related to these services is not expected to exceed $22,000.

In addition, Marion Academy entered into a settlement with two former employees approximating $50,000. These amounts were paid out subsequent to June 30, 2016 but prior to the date of this report. No further payout is expected related to the two former employees.

The reports presented herein were prepared in addition to another report prepared for Marion Academy as listed below:

Supplemental Audit Report of Alternatives in Education, Inc. d/b/a Marion Academy