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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 28, 2024

Charter School Board
Alianza Community Schools, Inc.
d/b/a Monarca Academy
Marion County, Indiana

We have reviewed the audit report of Alianza Community Schools, Inc. d/b/a Monarca Academy, which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2022 to June 30, 2023. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Alianza Community Schools, Inc. d/b/a Monarca Academy as of June 30, 2023 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 Emphasis of Matter paragraph included in the *Independent Auditors' Report* and further detailed in Note 3.

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

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

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

ALIANZA COMMUNITY SCHOOLS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Year Ended June 30, 2023



TABLE OF CONTENTS

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



Donovan CPAs

Independent Auditors' Report

The Board of Directors
Alianza Community Schools, Inc.

Opinion

We audited the accompanying financial statements of Alianza Community Schools, Inc. (the “School”), which comprise the statement of financial position as of June 30, 2023 and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2023 and the results of its operations, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“GAAS”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the School’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report including our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the School recorded in-kind contributions and offsetting expenses from Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools ("IPS"), a related party, totaling \$584,024 for the year ended June 30, 2023. These in-kind transactions represent approximately 36% of total revenue and support and 35% of total expenses for the year ended June 30, 2023. These amounts are calculated by IPS using significant estimates and judgments and are recorded by management as presented. Our opinion is not modified with respect to this matter.

DONOVAN



Indianapolis, Indiana
March 19, 2024

ALIANZA COMMUNITY SCHOOLS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2023

ASSETS

CURRENT ASSETS

Cash	\$ 669,685
Grants receivable	<u>98,083</u>
<i>Total current assets</i>	<u>767,768</u>

PROPERTY AND EQUIPMENT

Furniture and equipment	23,555
Less: accumulated depreciation	<u>(1,174)</u>
<i>Property and equipment, net</i>	<u>22,381</u>

TOTAL ASSETS

\$ 790,149

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 90,761
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NET ASSETS, WITHOUT DONOR RESTRICTIONS

699,388

TOTAL LIABILITIES AND NET ASSETS

\$ 790,149

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

ALIANZA COMMUNITY SCHOOLS, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2023

REVENUE AND SUPPORT	
Student-based allocation funding from IPS	\$ 292,296
In-kind contributions from IPS	584,024
Grant revenue	749,338
Contributions	<u>4,835</u>
<i>Total revenue and support</i>	<u>1,630,493</u>
 EXPENSES	
Program services	1,165,700
Management and general	<u>503,870</u>
<i>Total expenses</i>	<u>1,669,570</u>
 CHANGE IN NET ASSETS	 (39,077)
 NET ASSETS, BEGINNING OF YEAR	 <u>738,465</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 699,388</u></u>

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

ALIANZA COMMUNITY SCHOOLS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
In-kind expenses:			
Occupancy	\$ 359,396	\$ -	\$ 359,396
Maintenance	213,064	-	213,064
Security	-	6,270	6,270
Public engagement	-	5,294	5,294
	<hr/>	<hr/>	<hr/>
<i>Total in-kind expenses</i>	572,460	11,564	584,024
	<hr/>	<hr/>	<hr/>
Direct expense:			
Salaries and wages	142,450	334,733	477,183
Professional services	101,374	94,440	195,814
Transportation	175,732	-	175,732
Classroom and office supplies	58,808	4,288	63,096
Employee benefits	12,608	45,223	57,831
Repairs and maintenance	35,043	-	35,043
Insurance	16,965	11,929	28,894
Information technology	27,737	-	27,737
Travel	16,177	-	16,177
Food costs	2,581	-	2,581
Textbooks and equipment	1,380	-	1,380
Depreciation	1,174	-	1,174
Staff development	600	-	600
Other	611	1,693	2,304
	<hr/>	<hr/>	<hr/>
<i>Total direct expenses</i>	593,240	492,306	1,085,546
	<hr/>	<hr/>	<hr/>
<i>Total functional expenses</i>	\$ 1,165,700	\$ 503,870	\$ 1,669,570
	<hr/>	<hr/>	<hr/>

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

ALIANZA COMMUNITY SCHOOLS, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2023

OPERATING ACTIVITIES

Change in net assets	\$ (39,077)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,174
Change in certain assets and liabilities:	
Grants receivable	179,845
Accounts payable and accrued expenses	<u>87,261</u>
<i>Net cash provided by operating activities</i>	229,203

INVESTING ACTIVITIES

Purchases of property and equipment	<u>(23,555)</u>
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NET CHANGE IN CASH

205,648

CASH, BEGINNING OF YEAR

464,037

CASH, END OF YEAR

\$ 669,685

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

ALIANZA COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Alianza Community Schools, Inc., operating under the name Monarca Academy, (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates as a public charter school under Indiana Code 20-24 and is sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis. The charter is effective through June 30, 2030 and is renewable thereafter by mutual consent. The School served approximately 40 students in sixth grade during the 2022-2023 school year.

The School operates under an Innovation Network Charter School Agreement with Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools ("IPS"), to operate a charter school within an IPS building. The agreement is for a term of five years, ending June 30, 2027, and renews automatically for an additional five-year term unless either party provides written notice at least 180 days prior to the expiration of the agreement. Under the agreement, IPS pays to the School the amount the School would receive from the State of Indiana for state basic tuition support and complexity grant funding as if the School were a traditional charter school. The agreement can be terminated by either party within 30 days of written notice for material breach of the agreement, by IPS at the end of the school year for poor academic performance given written notice to the School 180 days prior, or by both parties by mutual consent effective as of a mutually agreeable date.

The School received valuable in-kind services from IPS during the year ended June 30, 2023. The values of these services were estimated and have been reflected as in-kind contributions and expenses. See Note 3.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions, which includes unrestricted resources available for the operating objectives of the School; and
- net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

As of June 30, 2023, the School had only net assets without donor restrictions.

Basis of Accounting and Use of Estimates – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions affecting certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. As of June 30, 2023, there were no cash equivalents.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The School believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

ALIANZA COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment – Purchases of assets and expenditures over \$5,000 which 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 small equipment purchases 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 life of furniture and equipment is 5 years.

Taxes on Income – The School received a determination from the U.S. Treasury Department stating 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 year ended June 30, 2023, 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 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 examined this issue and determined there are no material contingent tax liabilities or questionable tax positions. Tax years ended after June 30, 2019 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through March 19, 2024, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

NOTE 2 - REVENUE RECOGNITION

Revenue Recognition Policy – As discussed in Note 1, the majority of the School’s revenue and support is provided by IPS as part of the Innovation Network Charter School Agreement. Under the agreement with IPS, the School receives monthly funding from IPS in accordance with a student-based allocation formula. Funding includes both fixed and variable components. The variable funding depends upon certain attributes including the number of students, student grades, poverty status, and other factors. Revenue is recognized in the year in which the services are rendered.

A significant 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. Incurring approved costs under the grant is considered satisfaction of the performance obligations. The School also receives contributions and other income from other agencies and individuals, which are recorded in accordance with the terms of the underlying agreements.

Disaggregation of Revenue – Revenue is disaggregated on the statement of activities and change in net assets.

ALIANZA COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 3 - VALUATION OF IN-KIND SERVICES

The School recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$584,024 during the year ended June 30, 2023. These in-kind transactions represent approximately 36% of total revenue and support and 35% of total expenses for the year ended June 30, 2023. The values of these in-kind services are calculated by IPS using significant estimates and judgments and are recorded by management of the School as presented.

The only in-kind contributions received by the School are from IPS and are disaggregated on the statement of activities and change in net assets. There are no restrictions set on these amounts.

NOTE 4 - PRIOR PERIOD FINANCIAL ACTIVITY

Prior to the year ended June 30, 2023 (the School's first year of operations), the School received funding through contributions and grants in anticipation of opening the School. The School's statement of financial position as of July 1, 2022 was as follows:

Cash	\$	464,037
Grants receivable		<u>277,928</u>
<i>Total assets</i>	\$	<u><u>741,965</u></u>
Accounts payable and accrued expenses	\$	3,500
Net assets		<u>738,465</u>
<i>Total liabilities and net assets</i>	\$	<u><u>741,965</u></u>

NOTE 5 - RETIREMENT PLANS

The School maintains a defined contribution Section 403(b) retirement plan covering substantially all employees. The plan allows employees to make salary deferral contributions and provides that the School will make matching contributions of 100% of the first 3% of elective contributions and 50% of the next 2% of elective contributions.

NOTE 6 - COMMITMENTS

As the School's sponsoring organization, OEI exercises certain oversight responsibilities. Beginning with the 2025-2026 school year, OEI will assess a fee equal to 1% of the basic tuition support received by the School. No authorizer oversight fees were paid during the year ended June 30, 2023. The charter agreement requires the School to establish a cash escrow account of no less than \$30,000 should a dissolution occur, with a minimum of \$10,000 contributed to this account annually each of the School's first three years of operations until fully funded. As of June 30, 2023, this escrow account had not been established, however, it was established with an initial deposit of \$10,000 subsequent to year end.

ALIANZA COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Marion County 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. The School also receives substantial financial assistance from IPS in the form of in-kind contributions covering occupancy, maintenance, security, and public engagement. Changes to the Innovation Network Charter School Agreement with IPS 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 which potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2023, all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at KeyBank are insured up to the FDIC insurance limit of \$250,000. Funds held at this financial institution exceeded the FDIC insurance limit as of June 30, 2023, and regularly throughout the year then ended.

NOTE 8 - LIQUIDITY

Financial assets held by the School include cash and grants receivable totaling \$767,768 as of June 30, 2023. Financial assets are entirely available to meet cash needs for general expenditures within one 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 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net assets. Management of the School 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.