



STATE OF INDIANA
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December 9, 2016

Charter School Board
Options Charter School - Carmel
530 W Carmel Dr
Carmel, IN 46032

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., 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 the Options Charter School - Carmel, 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.

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

OPTIONS CHARTER SCHOOL - CARMEL, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015



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Independent Auditors' Report

The Board of Directors
Options Charter School – Carmel, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Options Charter School – Carmel, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Options Charter School – Carmel, Inc. as of June 30, 2016 and 2015, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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
December 2, 2016

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 744,077	\$ 351,221
Accounts receivable	110	2,340
Current portion of note receivable	37,500	-
Prepaid expenses	<u>9,423</u>	<u>-</u>
<i>Total current assets</i>	<u>791,110</u>	<u>353,561</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	172,782	82,697
Furniture and equipment	475,804	472,307
Less: accumulated depreciation	<u>(512,812)</u>	<u>(504,268)</u>
<i>Property and equipment, net</i>	<u>135,774</u>	<u>50,736</u>
OTHER ASSETS		
Note receivable, net of current portion	<u>712,500</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 1,639,384</u></u>	<u><u>\$ 404,297</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of note payable	\$ 50,000	\$ -
Accounts payable and accrued expenses	<u>136,271</u>	<u>106,355</u>
<i>Total current liabilities</i>	186,271	106,355
NOTE PAYABLE, NET OF CURRENT PORTION	<u>950,000</u>	<u>-</u>
<i>Total liabilities</i>	1,136,271	106,355
NET ASSETS, UNRESTRICTED	<u>503,113</u>	<u>297,942</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,639,384</u></u>	<u><u>\$ 404,297</u></u>

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

OPTIONS CHARTER SCHOOL - CARMEL, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
State education support	\$ 1,320,445	\$ 1,328,060
Grant revenue	243,925	167,433
Student fees	6,761	6,284
Contribution from Options in Education Foundation, Inc.	12,831	15,810
Other income	36,702	260
	<u>1,620,664</u>	<u>1,517,847</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	827,902	691,936
Management and general	587,591	547,978
	<u>1,415,493</u>	<u>1,239,914</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	205,171	277,933
NET ASSETS, BEGINNING OF YEAR	<u>297,942</u>	<u>20,009</u>
NET ASSETS, END OF YEAR	<u>\$ 503,113</u>	<u>\$ 297,942</u>

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

OPTIONS CHARTER SCHOOL - CARMEL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>			<u>2015</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 361,172	\$ 323,797	\$ 684,969	\$ 308,115	\$ 310,890	\$ 619,005
Employee benefits	107,425	96,308	203,733	101,064	101,974	203,038
Occupancy	210,781	28,064	238,845	213,287	28,398	241,685
Equipment	66,845	-	66,845	12,470	-	12,470
Professional services	25,920	51,030	76,950	14,207	39,139	53,346
Depreciation	7,540	1,004	8,544	8,680	1,156	9,836
Classroom and office supplies	21,545	19,315	40,860	15,820	15,963	31,783
Authorizer oversight fees	-	27,716	27,716	-	24,667	24,667
Insurance	-	14,656	14,656	-	13,689	13,689
Transportation	2,043	1,831	3,874	916	924	1,840
Interest	-	2,767	2,767	-	-	-
Other	24,631	21,103	45,734	17,377	11,178	28,555
<i>Total functional expenses</i>	<u>\$ 827,902</u>	<u>\$ 587,591</u>	<u>\$ 1,415,493</u>	<u>\$ 691,936</u>	<u>\$ 547,978</u>	<u>\$ 1,239,914</u>

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

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 205,171	\$ 277,933
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,544	9,836
Change in certain assets and liabilities:		
Accounts receivable	2,230	(1,478)
Prepaid expenses	(9,423)	-
Accounts payable and accrued expenses	29,916	10,922
	<u>236,438</u>	<u>297,213</u>
<i>Net cash provided by operating activities</i>	236,438 -	297,213
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(93,582)</u>	<u>(38,068)</u>
FINANCING ACTIVITIES		
Proceeds from note payable	1,000,000	-
Loan proceeds transferred to Options Charter School - Noblesville, Inc.	<u>(750,000)</u>	<u>-</u>
	<u>250,000</u>	<u>-</u>
<i>Net cash provided by financing activities</i>	250,000	-
NET CHANGE IN CASH	392,856	259,145
CASH, BEGINNING OF YEAR	<u>351,221</u>	<u>92,076</u>
CASH, END OF YEAR	<u>\$ 744,077</u>	<u>\$ 351,221</u>

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

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Options Charter School – Carmel, Inc. (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 and sponsored by Ball State University. The School serves students in grades nine to twelve by providing an alternative to traditional high school programs.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Accounts Receivable – Accounts 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.

Taxes on Income – Options Charter School – Carmel, 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 year ended June 30, 2016 and 2015, 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 2012 are open to audit for both federal and state purposes.

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

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:

Leasehold improvements	40 years
Furniture and equipment	3 to 7 years

Subsequent Events – The School evaluated subsequent events through December 2, 2016, 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 - LINE OF CREDIT

The School has a \$75,000 revolving line of credit with First Merchants Bank. Drawings against the line of credit bear interest at 2.5% above the lender’s prime rate and are secured by all school assets. There was no balance outstanding under the line of credit as of June 30, 2016 or 2015.

NOTE 3 - NOTE RECEIVABLE AND NOTE PAYABLE

During 2016, the School obtained a \$1,000,000 note payable from the State Board of Education. The School immediately entered into an agreement to loan \$750,000 of the proceeds to Options Charter School – Noblesville, Inc. (“Options – Noblesville”). The repayment terms with Options – Noblesville mirror the terms with the State Board of Education.

Note payable as of June 30, 2016 consisted of the following:

Note payable to State Board of Education, payable \$50,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, advanced in February 2016. First payment due January 1, 2017.	\$ 1,000,000
Less: current portion	<u>(50,000)</u>
Long-term portion	<u>\$ 950,000</u>

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School’s future tuition support payments on the School’s basic grant.

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 3 - NOTE RECEIVABLE AND NOTE PAYABLE, Continued

Note receivable as of June 30, 2016 consisted of the following:

Note receivable from Options – Noblesville, receivable \$37,500 semi-annually (January 1 and July 1) plus interest at 1.00% per annum. First payment receivable on January 1, 2017.	\$ 750,000
Less: current portion	<u>(37,500)</u>
Long-term portion	<u>\$ 712,500</u>

Principal maturities of the note payable and note receivable are as follows for the years ending June 30:

	<u>Note Payable</u>	<u>Note Receivable</u>	<u>Net</u>
2017	\$ 50,000	\$ 37,500	\$ 12,500
2018	100,000	70,000	30,000
2019	100,000	70,000	30,000
2020	100,000	70,000	30,000
2021	100,000	70,000	30,000
Thereafter	<u>550,000</u>	<u>432,500</u>	<u>117,500</u>
	<u>\$ 1,000,000</u>	<u>\$ 750,000</u>	<u>\$ 250,000</u>

NOTE 4 - LEASES

The School leases its facility and certain items of office equipment under operating leases. The facility lease requires monthly payments over a twelve year term and provides that the School pay for the costs of its improvements as well as its proportionate share of real estate taxes and operating expenses. The School also pays to Options – Noblesville \$1,725 per month relating to its share of rent on the administrative offices. Expense under operating leases was \$199,522 and \$206,872 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease obligations are as follows for the years ended June 30:

2017	\$ 146,801
2018	148,021
2019	149,398
2020	125,695
2021	130,673

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was \$27,716 and \$24,667 for the years ended June 30, 2016 and 2015, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

NOTE 6 - RELATED PARTIES

The School is related to Options – Noblesville in that they have a common Board of Directors. Both schools advance amounts to each other as needed to meet cash flow requirements. The net balance owed to Options – Noblesville as of June 30, 2016 and 2015 was \$16,904. The School is also contingently liable as a guarantor with respect to a \$75,000 line of credit maintained by Options – Noblesville. At June 30, 2016 and 2015, there was no balance outstanding under the line of credit.

The School is also affiliated with Options in Education Foundation, Inc. (the “Foundation”) in that the Foundation and the School have certain overlapping board members and that the Foundation solicits support and assistance to benefit the School. In the years ended June 30, 2016 and 2015, the School received financial assistance from the Foundation in the amounts of \$12,831 and \$15,810, respectively.

NOTE 7 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits 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. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 10.5% of compensation for electing teaching faculty to TRF and 11.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School 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, 2015 (the latest year reported), both TRF and PERF were more than 80% funded.

Employees can also elect to participate in a School-sponsored 403(b) plan in lieu of TRF or PERF. The School contributes 10.5% of participant compensation to the 403(b) plan. Retirement plan expense was \$64,165 and \$77,307 for the years ended June 30, 2016 and 2015, respectively.

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 8 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Hamilton 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, 2016 and 2015, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at First Merchants Bank are insured up to the FDIC insurance limit.

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and management services.