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April 13, 2017

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, 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 Phalen Leadership Academy, Inc., 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 The Phalen Leadership Academy, Inc. 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.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2016 AND 2015

**THE PHALEN LEADERSHIP ACADEMY –
INDIANA, INC.
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**THE PHALEN LEADERSHIP ACADEMY –
INDIANA, INC.
OTHER REPORTS
YEAR ENDED JUNE 30, 2016**

The report presented herein was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Phalen Leadership Academy – Indiana, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAcconnect.com

INDEPENDENT AUDITORS' REPORT

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. (the School), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, 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 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 School'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 School'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.

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

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information included in the statements of financial position by school and statements of activities by school are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information, and accordingly, do not express an opinion on such information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 13, 2017, 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
January 13, 2017

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,867,486	\$ 1,505,610
Grants receivable	337,232	6,062
Related party loan receivable	146,466	-
Security deposits	-	60,690
	2,351,184	1,572,362
PROPERTY AND EQUIPMENT		
Land	771,200	-
Building and improvements	6,009,548	-
Leasehold improvements	-	5,500
Furniture and equipment	522,578	301,280
Books and educational materials	357,028	129,402
Computer software	42,792	34,001
Computer equipment	180,006	97,517
Total, at cost	7,883,152	567,700
Less accumulated depreciation	492,407	190,965
	7,390,745	376,735
TOTAL ASSETS	\$ 9,741,929	\$ 1,949,097
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 368,220	\$ 133,522
Current portion of notes payable	167,768	-
Accrued liabilities	164,075	28,039
Total current liabilities	700,063	161,561
LONG-TERM LIABILITIES		
Notes payable, net of current portion	5,779,304	-
Total liabilities	6,479,367	161,561
NET ASSETS		
Unrestricted	2,525,792	548,163
Temporarily restricted	736,770	1,239,373
Total net assets	3,262,562	1,787,536
TOTAL LIABILITIES AND NET ASSETS	\$ 9,741,929	\$ 1,949,097

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND CONTRIBUTED SUPPORT						
REVENUE						
Contributions and donations	\$ 1,623,396	\$ -	\$ 1,623,396	\$ 597,658	\$ -	\$ 597,658
Grant revenue	2,203,872	650,000	2,853,872	1,890,138	1,239,373	3,129,511
School breakfast, lunch and textbook reimbursement	273,028	-	273,028	197,382	-	197,382
Operator revenue	3,307,934	-	3,307,934	475,182	-	475,182
Other revenue	2,916	-	2,916	7,201	-	7,201
Total revenue	<u>7,411,146</u>	<u>650,000</u>	<u>8,061,146</u>	<u>3,167,561</u>	<u>1,239,373</u>	<u>4,406,934</u>
Net assets released from restrictions	1,152,603	(1,152,603)	-	150,000	(150,000)	-
Total revenue and support	8,563,749	(502,603)	8,061,146	3,317,561	1,089,373	4,406,934
EXPENSES						
Program services	4,498,713	-	4,498,713	2,854,788	-	2,854,788
Supporting services						
General and administrative	<u>2,087,407</u>	<u>-</u>	<u>2,087,407</u>	<u>822,162</u>	<u>-</u>	<u>822,162</u>
Total expenses	<u>6,586,120</u>	<u>-</u>	<u>6,586,120</u>	<u>3,676,950</u>	<u>-</u>	<u>3,676,950</u>
CHANGE IN NET ASSETS	1,977,629	(502,603)	1,475,026	(359,389)	1,089,373	729,984
NET ASSETS, BEGINNING OF YEAR	<u>548,163</u>	<u>1,239,373</u>	<u>1,787,536</u>	<u>907,552</u>	<u>150,000</u>	<u>1,057,552</u>
NET ASSETS, END OF YEAR	<u>\$ 2,525,792</u>	<u>\$ 736,770</u>	<u>\$ 3,262,562</u>	<u>\$ 548,163</u>	<u>\$ 1,239,373</u>	<u>\$ 1,787,536</u>

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Service Expenses			Supporting Services	Total Expenses
	Grants	Academics	Total Program Services	Management and General	
Salaries and benefits	\$ 81,635	\$ 2,372,813	\$ 2,454,448	\$ 819,074	\$ 3,273,522
Professional services	-	504	504	20,327	20,831
Information technology	-	123,830	123,830	1,046,574	1,170,404
Legal and accounting	-	-	-	39,325	39,325
Professional development	-	5,965	5,965	19,907	25,872
Cleaning services	-	264,656	264,656	-	264,656
Security services	-	4,681	4,681	-	4,681
Utilities	-	119,758	119,758	25,208	144,966
Materials and supplies	44,728	272,586	317,314	23,237	340,551
Nutritional support	-	234,719	234,719	2,166	236,885
Sales, marketing and community relations	-	18,915	18,915	-	18,915
Travel and entertainment	-	11,855	11,855	9,818	21,673
Interest expense	-	-	-	81,461	81,461
Rent and facilities	-	364,322	364,322	-	364,322
Depreciation	-	301,442	301,442	-	301,442
Insurance	-	53,422	53,422	-	53,422
Repairs and maintenance	-	222,882	222,882	-	222,882
Miscellaneous	-	-	-	310	310
	<u>\$ 126,363</u>	<u>\$ 4,372,350</u>	<u>\$ 4,498,713</u>	<u>\$ 2,087,407</u>	<u>\$ 6,586,120</u>

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Service Expenses			Supporting Services	Total Expenses
	Grants	Academics	Total Program Services	Management and General	
Salaries and benefits	\$ 64,665	\$ 1,215,336	\$ 1,280,001	\$ 453,270	\$ 1,733,271
Professional services	-	97,747	97,747	6,806	104,553
Information technology	-	55,434	55,434	254,769	310,203
Legal and accounting	-	-	-	10,872	10,872
Professional development	-	27,431	27,431	27,829	55,260
Cleaning services	-	62,389	62,389	-	62,389
Security services	-	348	348	-	348
Utilities	-	90,443	90,443	10,023	100,466
Materials and supplies	32,567	135,323	167,890	38,358	206,248
Nutritional support	-	180,363	180,363	8,503	188,866
Sales, marketing and community relations	-	34,610	34,610	-	34,610
Travel and entertainment	-	-	-	11,695	11,695
Rent and facilities	-	507,132	507,132	-	507,132
Depreciation	-	105,468	105,468	-	105,468
Insurance	-	27,348	27,348	-	27,348
Repairs and maintenance	-	218,184	218,184	-	218,184
Miscellaneous	-	-	-	37	37
	<u>\$ 97,232</u>	<u>\$ 2,757,556</u>	<u>\$ 2,854,788</u>	<u>\$ 822,162</u>	<u>\$ 3,676,950</u>

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,475,026	\$ 729,984
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	301,442	105,468
Effects of changes in operating assets and liabilities:		
Grants receivable	(331,170)	160,774
Related party receivable	(146,466)	-
Security deposits	60,690	-
Accounts payable	234,698	111,376
Accrued liabilities	136,036	(50,970)
	1,730,256	1,056,632
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,315,452)	(57,591)
	(1,315,452)	(57,591)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(52,928)	-
	(52,928)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	361,876	999,041
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,505,610	506,569
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,867,486	\$ 1,505,610
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property acquired with proceeds from long term debt	\$ 6,000,000	\$ -

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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.

During 2015, PLA entered into an agreement with Indianapolis Public Schools (IPS) to operate Francis Scott Key School 103 (School 103) as an Innovation Network School. School 103 opened under this arrangement in August 2016. All School 103 operating revenue and expense is included in the financial statements.

In October 2015, the School entered into a five-year contract and Preliminary Agreement for PLA in Cincinnati. This contract and Preliminary Agreement represent a commitment to start a new charter school in Cincinnati. The School is still moving forward with this plan.

During the year ended June 30, 2016, the School entered into agreements for the operation of two additional campus locations. This included agreements to operate IPS School 93 as well as the Thea Bowman Leadership Academy. There were no program activities for either school during fiscal 2016. Expenses incurred during the year ended June 30, 2016 are minimal and are included in the financial statements of the School.

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.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classifications (Continued)

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, 2016 and 2015.

Cash and Cash Equivalents

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

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.

Property and Equipment

Property and equipment are reported at cost, less accumulated depreciation. Improvements and replacements greater than \$500 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:

Building	30 years
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.

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 years ended June 30, 2016 and 2015.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue (Continued)

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 in the United States of America 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.

Advertising

PLA expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2016 and 2015 totaled \$15,903 and \$29,779, respectively.

Impairment of Long-lived Assets

On an ongoing basis, the School reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may be overstated. The School 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 School 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 School and recognize a tax liability if the School 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 School, and has concluded that as of June 30, 2016, 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.

Subsequent Events

Management evaluated subsequent events through January 13, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to January 13, 2017, that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events (Continued)

Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, 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, 2016.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

NOTE 2 NOTES PAYABLE

Notes payable consist of the following at December 31, 2016 and 2015:

<u>Description</u>	<u>2016</u>	<u>2015</u>
4% Note Payable, principal and accumulated accrued interest due at April 1, 2041, secured by the property located at 2323 North Illinois Street, Indianapolis, IN 46208. Subordinated.	\$ 2,083,580	\$ -
6.375% Note Payable, principal and accumulated accrued interest due at April 1, 2021, secured by the property located at 2323 North Illinois Street, Indianapolis, IN 46208. Subordinated.	887,916	-
3.27% Note Payable at the federal tax exempt rate, principal and accumulated accrued interest due at March 1, 2041, secured by the property located at 2323 North Illinois Street, Indianapolis, IN 46208.	<u>2,975,576</u>	<u>-</u>
Total	<u>\$ 5,947,072</u>	<u>\$ -</u>

Future maturities of notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Notes Payable</u>
2017	\$ 167,768
2018	174,981
2019	182,534
2020	190,196
2021	870,976
Thereafter	<u>4,360,617</u>
Total	<u>\$ 5,947,072</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 SUMMARY OF GRANTS/CONTRACTS FUNDING

PLA received funds through the following grants and contracts for the period July 1, 2015 to June 30, 2016.

Funding Source	CFDA #	Grant Contract Number	Grant Contract Period	Total Grant	Recognized Support
Federal					
Indiana Department of Education	84.282	A58-3-13SS-1072	8/1/12 – 8/19/15	\$ 717,000	\$ 172,888
Indiana Department of Education	84.010A	16-9925	Reimbursement	298,378	277,726
Indiana Department of Education	84.027	14216-572-PN01	Reimbursement	53,322	43,959
Indiana Department of Education	10.555		Reimbursement	200,815	200,815
Total Federal Government				<u>1,269,515</u>	<u>695,388</u>
Foundation and Corporate					
Indiana Department of Education		N/A	N/A	2,144,236	2,144,236
Indianapolis Public Schools		N/A	N/A	197,767	193,756
The Mind Trust, Inc.		N/A	5/1/15 – 12/1/15	50,000	39,000
The Walton Family Foundation		2015-1397	N/A	250,000	250,000
Charter School Facility Grant		N/A	N/A	163,000	163,000
NewSchools Venture Fund		N/A	10/1/15 - 9/30/16	200,000	200,000
Accelerate Great Schools		N/A	5/24/16 - 6/30/18	2,550,000	650,000
Farash Foundation		N/A	N/A	50,000	50,000
The Glick Fund		16124	N/A	97,500	97,500
The Glick Fund		16125	N/A	216,385	216,385
The Glick Fund		16126	N/A	51,031	51,031
Total Foundation and Corporate				<u>5,969,919</u>	<u>4,054,908</u>
Total Grants and Contracts				<u>\$ 7,239,434</u>	<u>\$ 4,750,296</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 SUMMARY OF GRANTS/CONTRACTS FUNDING (CONTINUED)

PLA received funds through the following grants and contracts for the period July 1, 2014 to June 30, 2015.

<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 – 8/19/15	\$ 717,000	\$ 84,111
Indiana Department of Education	84.010A	15-9925	Reimbursement	143,515	143,515
Indiana Department of Education	84.027	14214-583- PN01	Reimbursement	30,991	2,852
Indiana Department of Education	84.027	14215-583- PN01	Reimbursement	30,628	30,628
Indiana Department of Education	84.027	14215-583- PN01	Reimbursement	10,000	4,637
Indiana Department of Education	10.555		Reimbursement	<u>174,273</u>	<u>174,273</u>
Total Federal Government				1,106,407	440,016
Foundation and Corporate					
Indiana Department of Education		N/A	N/A	1,945,114	1,945,114
Indianapolis Public Schools		N/A	N/A	252,909	214,373
The Mind Trust, Inc.		N/A	5/1/15 – 12/1/15	150,000	122,827
Fidelity		N/A	Building Fund	1,000,000	1,000,000
State Street		N/A	N/A	25,000	25,000
Other miscellaneous grants and contracts		N/A	N/A	<u>177,221</u>	<u>177,221</u>
Total Foundation and Corporate				<u>3,550,244</u>	<u>3,484,535</u>
Total Grants and Contracts				<u>\$ 4,656,651</u>	<u>\$ 3,924,551</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 CONCENTRATION OF CREDIT RISK

PLA maintains its cash in bank accounts at a single financial institution. At June 30, 2016, balances in the School's deposit accounts were insured by the FDIC up to \$250,000 per depositor bank. As of June 30, 2016 and 2015, the School 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 ended June 30, 2016.

PLA receives operating funds from the Indiana Department of Education which amounted to 23% and 44% of the total revenue and contributed support for the years ended June 30, 2016 and 2015, respectively. Operating revenues are determined under a state funding formula based on the number of students enrolled during the school year. PLA also received temporarily restricted funds totaling 22% of total revenue and contributed support for the year ended June 30, 2015.

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 5 LEASES

PLA had entered into an operating lease arrangement for the rental of school facility, expiring in June 2023. However, this agreement was terminated in February 2016 upon purchase of the facility. Accordingly, there are no future minimum lease payments.

Total lease expense for the years ended June 30, 2016 and 2015 under this lease amounted to \$364,322 and \$507,132, respectively.

NOTE 6 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 ended June 30, 2016 and 2015 were \$118,588 and \$67,531, respectively.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 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 a \$146,466 loan receivable due from Summer Advantage at June 30, 2016. This loan is due to be repaid in eighteen monthly installments of \$10,462 plus interest at prime rate (3.50% at June 30, 2016). No amounts were due from Summer Advantage at June 30, 2015.

The School paid Summer Advantage approximately \$1,014,000 and \$271,000 in the years ended June 30, 2016 and 2015, respectively, for reimbursement of management related functions. There were no outstanding amounts due to Summer Advantage at June 30, 2016 or 2015.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$586,770 at June 30, 2016 are restricted for specific purpose restrictions, as defined by the grantors. While restrictions are based on specific purpose, the School expects to fulfill those restrictions within the next year.

During the year, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or time restrictions. As of June 30, 2016, the following restrictions have been satisfied:

Building use restriction satisfied	\$ 998,263
Time restriction satisfied	<u>154,340</u>
	<u>\$ 1,152,603</u>

During the year ended June 30, 2015, the following temporarily restricted net assets were released from donor restrictions by satisfying the specific time restrictions:

Time restriction satisfied	<u>\$ 150,000</u>
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NOTE 9 SUBSEQUENT EVENTS

No subsequent events have been identified that require disclosure.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENTS OF FINANCIAL POSITION BY SCHOOL
JUNE 30, 2016 AND 2015

	2016				2015		
	PLA	PLA 103	Cincinnati	Total	PLA	PLA 103	Total
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	\$ 321,583	\$ 1,045,903	\$ 500,000	\$ 1,867,486	\$ 1,151,321	\$ 354,289	\$ 1,505,610
Grants receivable	42,996	294,236	-	337,232	6,062	-	6,062
Related party loan receivable	-	146,466	-	146,466	-	-	-
Security deposits	-	-	-	-	60,690	-	60,690
Total current assets	<u>364,579</u>	<u>1,486,605</u>	<u>500,000</u>	<u>2,351,184</u>	<u>1,218,073</u>	<u>354,289</u>	<u>1,572,362</u>
PROPERTY AND EQUIPMENT							
Land	771,200	-	-	771,200	-	-	-
Building and improvements	6,009,548	-	-	6,009,548	-	-	-
Leasehold improvements	-	-	-	-	5,500	-	5,500
Furniture and equipment	399,843	122,735	-	522,578	301,280	-	301,280
Books and educational materials	181,346	175,682	-	357,028	129,402	-	129,402
Computer software	42,792	-	-	42,792	34,001	-	34,001
Computer equipment	116,281	63,725	-	180,006	97,517	-	97,517
Total, at cost	<u>7,521,010</u>	<u>362,142</u>	<u>-</u>	<u>7,883,152</u>	<u>567,700</u>	<u>-</u>	<u>567,700</u>
Less accumulated depreciation	419,896	72,511	-	492,407	190,965	-	190,965
Total furniture and equipment	<u>7,101,114</u>	<u>289,631</u>	<u>-</u>	<u>7,390,745</u>	<u>376,735</u>	<u>-</u>	<u>376,735</u>
TOTAL ASSETS	<u>\$ 7,465,693</u>	<u>\$ 1,776,236</u>	<u>\$ 500,000</u>	<u>\$ 9,741,929</u>	<u>\$ 1,594,808</u>	<u>\$ 354,289</u>	<u>\$ 1,949,097</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts payable	\$ 181,333	\$ 186,887	\$ -	\$ 368,220	\$ 66,824	66,698	\$ 133,522
Current portion of notes payable	167,768	-	-	167,768	-	-	-
Accrued liabilities	74,275	89,800	-	164,075	28,039	-	28,039
Total current liabilities	<u>423,376</u>	<u>276,687</u>	<u>-</u>	<u>700,063</u>	<u>94,863</u>	<u>66,698</u>	<u>161,561</u>
LONG-TERM LIABILITIES							
Notes payable, net of current portion	<u>5,779,304</u>	<u>-</u>	<u>-</u>	<u>5,779,304</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,202,680</u>	<u>276,687</u>	<u>-</u>	<u>6,479,367</u>	<u>94,863</u>	<u>66,698</u>	<u>161,561</u>
NET ASSETS							
Unrestricted	1,086,276	1,439,516	-	2,525,792	474,945	73,218	548,163
Temporarily restricted	176,737	60,033	500,000	736,770	1,025,000	214,373	1,239,373
Total net assets	<u>1,263,013</u>	<u>1,499,549</u>	<u>500,000</u>	<u>3,262,562</u>	<u>1,499,945</u>	<u>287,591</u>	<u>1,787,536</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,465,693</u>	<u>\$ 1,776,236</u>	<u>\$ 500,000</u>	<u>\$ 9,741,929</u>	<u>\$ 1,594,808</u>	<u>\$ 354,289</u>	<u>\$ 1,949,097</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF ACTIVITIES BY SCHOOL
YEAR ENDED JUNE 30, 2016

	PLA			PLA 103			Cincinnati			Total		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND CONTRIBUTED SUPPORT												
REVENUE												
Contributions and donations	\$ 906,500	\$ -	\$ 906,500	\$ 716,896	\$ -	\$ 716,896	\$ -	\$ -	\$ -	\$ 1,623,396	\$ -	\$ 1,623,396
Grant revenue	2,203,872	-	2,203,872	-	-	-	-	650,000	650,000	2,203,872	650,000	2,853,872
School breakfast, lunch and textbook reimbursement	273,028	-	273,028	-	-	-	-	-	-	273,028	-	273,028
Operator revenue	-	-	-	3,307,934	-	3,307,934	-	-	-	3,307,934	-	3,307,934
Other revenue	2,916	-	2,916	-	-	-	-	-	-	2,916	-	2,916
Total revenue	3,386,316	-	3,386,316	4,024,830	-	4,024,830	-	650,000	650,000	7,411,146	650,000	8,061,146
Net assets released from restrictions	848,263	(848,263)	-	154,340	(154,340)	-	150,000	(150,000)	-	1,152,603	(1,152,603)	-
Total revenue and support	4,234,579	(848,263)	3,386,316	4,179,170	(154,340)	4,024,830	150,000	500,000	650,000	8,563,749	(502,603)	8,061,146
EXPENSES												
Program services	2,707,169	-	2,707,169	1,791,544	-	1,791,544	-	-	-	4,498,713	-	4,498,713
Supporting services	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	916,079	-	916,079	1,021,328	-	1,021,328	150,000	-	150,000	2,087,407	-	2,087,407
Total expenses	3,623,248	-	3,623,248	2,812,872	-	2,812,872	150,000	-	150,000	6,586,120	-	6,586,120
CHANGE IN NET ASSETS	611,331	(848,263)	(236,932)	1,366,298	(154,340)	1,211,958	-	500,000	500,000	1,977,629	(502,603)	1,475,026
NET ASSETS, BEGINNING OF YEAR	474,945	1,025,000	1,499,945	73,218	214,373	287,591	-	-	-	548,163	1,239,373	1,787,536
NET ASSETS, END OF YEAR	<u>\$ 1,086,276</u>	<u>\$ 176,737</u>	<u>\$ 1,263,013</u>	<u>\$ 1,439,516</u>	<u>\$ 60,033</u>	<u>\$ 1,499,549</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 2,525,792</u>	<u>\$ 736,770</u>	<u>\$ 3,262,562</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF ACTIVITIES BY SCHOOL
YEAR ENDED JUNE 30, 2015

	PLA			PLA 103			Total		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND CONTRIBUTED SUPPORT									
REVENUE									
Contributions and donations	\$ 286,849	\$ -	\$ 286,849	\$ 310,809	\$ -	\$ 310,809	\$ 597,658	\$ -	\$ 597,658
Grant revenue	1,890,138	1,025,000	2,915,138	-	214,373	214,373	1,890,138	1,239,373	3,129,511
School breakfast, lunch and textbook reimbursement	197,382	-	197,382	-	-	-	197,382	-	197,382
Operator revenue	475,182	-	475,182	-	-	-	475,182	-	475,182
Other revenue	7,201	-	7,201	-	-	-	7,201	-	7,201
Total revenue	2,856,752	1,025,000	3,881,752	310,809	214,373	525,182	3,167,561	1,239,373	4,406,934
Net assets released from restrictions	150,000	(150,000)	-	-	-	-	150,000	(150,000)	-
Total revenue and support	3,006,752	875,000	3,881,752	310,809	214,373	525,182	3,317,561	1,089,373	4,406,934
EXPENSES									
Program services	2,617,197	-	2,617,197	237,591	-	237,591	2,854,788	-	2,854,788
Supporting services							-	-	-
General and administrative	822,162	-	822,162	-	-	-	822,162	-	822,162
Total expenses	3,439,359	-	3,439,359	237,591	-	237,591	3,676,950	-	3,676,950
CHANGE IN NET ASSETS	(432,607)	875,000	442,393	73,218	214,373	287,591	(359,389)	1,089,373	729,984
NET ASSETS, BEGINNING OF YEAR	907,552	150,000	1,057,552	-	-	-	907,552	150,000	1,057,552
NET ASSETS, END OF YEAR	\$ 474,945	\$ 1,025,000	\$ 1,499,945	\$ 73,218	\$ 214,373	\$ 287,591	\$ 548,163	\$ 1,239,373	\$ 1,787,536



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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

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, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits 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 School'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.

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

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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Indianapolis, Indiana
January 13, 2017