



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B49005

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

November 14, 2017

Charter School Board
Options Charter School – Carmel, Inc.
530 W Carmel Dr.
Carmel, IN 46032

We have reviewed the report prepared by Options Charter School – Carmel, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Options Charter School – Carmel, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter 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, 2017 and 2016



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 11



Donovan CPAs

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, 2017 and 2016, 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.

www.cpadonovan.com

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

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

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, 2017 and 2016, and the changes in its net assets, functional expenses, and 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 dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana
October 27, 2017

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 827,660	\$ 744,077
Accounts receivable	3,563	110
Current portion of note receivable	75,000	37,500
Prepaid expenses	<u>18,286</u>	<u>9,423</u>
<i>Total current assets</i>	<u>924,509</u>	<u>791,110</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	229,316	172,782
Furniture and equipment	498,125	475,804
Less: accumulated depreciation	<u>(538,327)</u>	<u>(512,812)</u>
<i>Property and equipment, net</i>	<u>189,114</u>	<u>135,774</u>
OTHER ASSETS		
Note receivable, net of current portion	<u>637,500</u>	<u>712,500</u>
TOTAL ASSETS	<u>\$ 1,751,123</u>	<u>\$ 1,639,384</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of note payable	\$ 100,000	\$ 50,000
Accounts payable and accrued expenses	88,029	136,271
Refundable advance	<u>5,812</u>	<u>-</u>
<i>Total current liabilities</i>	193,841	186,271
NOTE PAYABLE, NET OF CURRENT PORTION	<u>850,000</u>	<u>950,000</u>
<i>Total liabilities</i>	1,043,841	1,136,271
NET ASSETS, UNRESTRICTED	<u>707,282</u>	<u>503,113</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,751,123</u>	<u>\$ 1,639,384</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 1,332,210	\$ 1,320,445
Grant revenue	264,870	243,925
Student fees	10,483	6,761
Contribution from Options in Education Foundation, Inc.	8,530	12,831
Other income	9,898	36,702
	<u>1,625,991</u>	<u>1,620,664</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	801,172	827,902
Management and general	620,650	587,591
	<u>1,421,822</u>	<u>1,415,493</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	204,169	205,171
NET ASSETS, BEGINNING OF YEAR	<u>503,113</u>	<u>297,942</u>
NET ASSETS, END OF YEAR	<u>\$ 707,282</u>	<u>\$ 503,113</u>

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

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2017 and 2016

	2017			2016		
	<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	\$ 355,127	\$ 348,368	\$ 703,495	\$ 361,172	\$ 323,797	\$ 684,969
Employee benefits	117,444	115,209	232,653	107,425	96,308	203,733
Occupancy	218,993	29,158	248,151	210,781	28,064	238,845
Equipment	28,013	-	28,013	66,845	-	66,845
Professional services	17,864	16,330	34,194	25,920	51,030	76,950
Depreciation	22,517	2,998	25,515	7,540	1,004	8,544
Classroom and office supplies	17,335	17,005	34,340	21,545	19,315	40,860
Authorizer oversight fees	-	28,391	28,391	-	27,716	27,716
Insurance	-	23,542	23,542	-	14,656	14,656
Transportation	1,560	1,531	3,091	2,043	1,831	3,874
Interest	-	10,284	10,284	-	2,767	2,767
Other	22,319	27,834	50,153	24,631	21,103	45,734
	<u>\$ 801,172</u>	<u>\$ 620,650</u>	<u>\$ 1,421,822</u>	<u>\$ 827,902</u>	<u>\$ 587,591</u>	<u>\$ 1,415,493</u>
<i>Total functional expenses</i>						

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

OPTIONS CHARTER SCHOOL - CARMEL, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 204,169	\$ 205,171
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	25,515	8,544
Change in certain assets and liabilities:		
Accounts receivable	(3,453)	2,230
Prepaid expenses	(8,863)	(9,423)
Accounts payable and accrued expenses	(48,242)	29,916
Refundable advance	5,812	-
	<u>174,938</u>	<u>236,438</u>
<i>Net cash provided by operating activities</i>		
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(78,855)</u>	<u>(93,582)</u>
FINANCING ACTIVITIES		
Proceeds from note payable	-	1,000,000
Note payable proceeds transferred to Options Charter School - Noblesville, Inc.	-	(750,000)
Principal paid on note payable	(50,000)	-
Principal received from Options Charter School - Noblesville, Inc.	<u>37,500</u>	<u>-</u>
	<u>(12,500)</u>	<u>250,000</u>
<i>Net cash provided by (used in) financing activities</i>		
NET CHANGE IN CASH	83,583	392,856
CASH, BEGINNING OF YEAR	<u>744,077</u>	<u>351,221</u>
CASH, END OF YEAR	<u>\$ 827,660</u>	<u>\$ 744,077</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 8,301	\$ -

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, 2017 and 2016

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 is 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 years ended June 30, 2017 and 2016, 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 2013 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, 2017 and 2016

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	5 to 40 years
Furniture and equipment	3 to 7 years

Subsequent Events – The School evaluated subsequent events through October 27, 2017, 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, 2017 or 2016.

NOTE 3 - REFUNDABLE ADVANCE

The School has been awarded a grant from the Lilly Foundation, Inc. for the purpose of establishing comprehensive counseling services for students. The grant must be utilized for its intended purpose no later than December 31, 2017, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statements of financial position and had a balance of \$5,812 at June 30, 2017.

NOTE 4 - 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.

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 4 - NOTE RECEIVABLE AND NOTE PAYABLE, Continued

Note payable consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
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.	\$ 950,000	\$ 1,000,000
Less: current portion	<u>(100,000)</u>	<u>(50,000)</u>
Long-term portion	\$ <u>850,000</u>	\$ <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.

Note receivable consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Note receivable from Options - Noblesville, receivable \$37,500 semi-annually (January 1 and July 1) plus interest at 1.00% per annum.	\$ 712,500	\$ 750,000
Less: current portion	<u>(75,000)</u>	<u>(37,500)</u>
Long-term portion	\$ <u>637,500</u>	\$ <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>
2018	\$ 100,000	\$ 75,000	\$ 25,000
2019	100,000	75,000	25,000
2020	100,000	75,000	25,000
2021	100,000	75,000	25,000
2022	100,000	75,000	25,000
Thereafter	<u>450,000</u>	<u>337,500</u>	<u>112,500</u>
	\$ <u>950,000</u>	\$ <u>712,500</u>	\$ <u>237,500</u>

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 5 - 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 for its share of rent related to the administrative offices. Expense under operating leases was \$198,872 and \$199,522 for the years ended June 30, 2017 and 2016, respectively.

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

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

NOTE 6 - 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 \$28,391 and \$27,716 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

NOTE 7 - 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, 2017 and 2016 was \$16,904. The School paid Options - Noblesville \$15,386 and \$20,700 during the years ended June 30, 2017 and 2016, respectively, for a portion of the administrative expenses. 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, 2017 and 2016, there was no balance outstanding under the line of credit. The School also has a note receivable from Options - Noblesville as described in Note 4.

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, 2017 and 2016, the School received financial assistance from the Foundation in the amounts of \$8,530 and \$12,831, respectively.

OPTIONS CHARTER SCHOOL - CARMEL, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 8 - 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, 2016 (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 \$76,364 and \$64,165 for the years ended June 30, 2017 and 2016, respectively.

NOTE 9 - 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, 2017 and 2016, 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 10 - 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. Accordingly, certain expenses have been allocated between program and management services.