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July 19, 2018


Charter School Board
The Phalen Leadership Academy - Indiana, Inc.
2323 North Illinois St.
Indianapolis, IN 46208

We have reviewed the report prepared by The Phalen Leadership Academy - Indiana, Inc. and opined upon by CliftonLarsonAllen LLP, 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 The Phalen Leadership Academy - Indiana, 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, CliftonLarsonAllen LLP prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for The Phalen Leadership Academy - Indiana, 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.


Paul D. Joyce, CPA
State Examiner

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2017 AND 2016

**THE PHALEN LEADERSHIP ACADEMY –
INDIANA, INC.
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**THE PHALEN LEADERSHIP ACADEMY –
INDIANA, INC.
OTHER REPORTS
YEAR ENDED JUNE 30, 2017**

The report presented herein was prepared in addition to another official report prepared for PLA 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*.

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. (PLA), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 audits. We conducted our audits 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 PLA'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 PLA'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 The Phalen Leadership Academy – Indiana, Inc. as of June 30, 2017 and 2016, 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 schedules of financial position by school and schedules 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 December 28, 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 solely 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 the effectiveness of The Phalen Leadership Academy – Indiana, Inc.’s 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
December 28, 2017

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,774,545	\$ 1,867,486
Grants receivable	678,138	337,232
Related party accounts receivable	62,675	-
Related party loan receivable	20,924	146,466
Prepaid assets	69,779	-
Total current assets	2,606,061	2,351,184
PROPERTY AND EQUIPMENT		
Land	771,200	771,200
Building and improvements	6,004,048	6,009,548
Leasehold improvements	113,713	-
Furniture and equipment	606,667	522,578
Books and educational materials	617,218	357,028
Computer software	42,792	42,792
Computer equipment	294,173	180,006
Total, at cost	8,449,811	7,883,152
Less accumulated depreciation	971,816	492,407
Total furniture and equipment	7,477,995	7,390,745
OTHER ASSETS		
Security deposit	1,000,000	-
TOTAL ASSETS	\$ 11,084,056	\$ 9,741,929
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable - trade	\$ 390,605	\$ 368,220
Accounts payable - related party	39,445	-
Current portion of notes payable	129,156	117,175
Current portion of notes payable - related party	52,653	50,593
Accrued liabilities	197,008	164,075
Total current liabilities	808,867	700,063
LONG-TERM LIABILITIES		
Notes payable, net of current portion	3,623,989	3,746,317
Notes payable, net of current portion - related party	1,980,334	2,032,987
Total long-term liabilities	5,604,323	5,779,304
Total liabilities	6,413,190	6,479,367
NET ASSETS		
Unrestricted	4,665,145	2,675,792
Temporarily restricted	5,721	586,770
Total net assets	4,670,866	3,262,562
TOTAL LIABILITIES AND NET ASSETS	\$ 11,084,056	\$ 9,741,929

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND CONTRIBUTED SUPPORT						
REVENUE						
Contributions and donations	\$ 1,358,415	\$ -	\$ 1,358,415	\$ 1,623,396	\$ -	\$ 1,623,396
Grant revenue	2,827,073	5,721	2,832,794	2,203,872	650,000	2,853,872
School breakfast, lunch and textbook reimbursement	283,837	-	283,837	273,028	-	273,028
Operator revenue	7,346,404	-	7,346,404	3,307,934	-	3,307,934
Other revenue	3,563	-	3,563	2,916	-	2,916
Total revenue	<u>11,819,292</u>	<u>5,721</u>	<u>11,825,013</u>	<u>7,411,146</u>	<u>650,000</u>	<u>8,061,146</u>
Net assets released from restrictions	586,770	(586,770)	-	1,152,603	(1,152,603)	-
Total revenue and support	12,406,062	(581,049)	11,825,013	8,563,749	(502,603)	8,061,146
EXPENSES						
Program services	6,513,184	-	6,513,184	4,445,291	-	4,445,291
Supporting services						
General and administrative	<u>3,903,525</u>	<u>-</u>	<u>3,903,525</u>	<u>2,140,829</u>	<u>-</u>	<u>2,140,829</u>
Total expenses	<u>10,416,709</u>	<u>-</u>	<u>10,416,709</u>	<u>6,586,120</u>	<u>-</u>	<u>6,586,120</u>
CHANGE IN NET ASSETS	1,989,353	(581,049)	1,408,304	1,977,629	(502,603)	1,475,026
NET ASSETS, BEGINNING OF YEAR	<u>2,675,792</u>	<u>586,770</u>	<u>3,262,562</u>	<u>698,163</u>	<u>1,089,373</u>	<u>1,787,536</u>
NET ASSETS, END OF YEAR	<u>\$ 4,665,145</u>	<u>\$ 5,721</u>	<u>\$ 4,670,866</u>	<u>\$ 2,675,792</u>	<u>\$ 586,770</u>	<u>\$ 3,262,562</u>

See accompanying Notes to Financial Statements.

**THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Academics</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 4,706,423	\$ 1,488,710	\$ 6,195,133
Professional services	27,063	59,762	86,825
Information technology	180,416	1,717,291	1,897,707
Legal and accounting	-	149,088	149,088
Professional development	8,414	26,465	34,879
Cleaning services	265,928	-	265,928
Security services	3,364	-	3,364
Utilities	119,887	34,717	154,604
Materials and supplies	259,754	76,863	336,617
Nutritional support	228,738	1,842	230,580
Sales, marketing and community relations	28,194	-	28,194
Travel and entertainment	34,554	30,983	65,537
Interest expense	-	227,493	227,493
Rent and facilities	54,229	-	54,229
Depreciation	479,410	-	479,410
Insurance	-	89,425	89,425
Repairs and maintenance	116,810	-	116,810
Miscellaneous	-	886	886
	<u>\$ 6,513,184</u>	<u>\$ 3,903,525</u>	<u>\$ 10,416,709</u>

See accompanying Notes to Financial Statements.

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

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Academics</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 2,454,448	\$ 819,074	\$ 3,273,522
Professional services	504	20,327	20,831
Information technology	123,830	1,046,574	1,170,404
Legal and accounting	-	39,325	39,325
Professional development	5,965	19,907	25,872
Cleaning services	264,656	-	264,656
Security services	4,681	-	4,681
Utilities	119,758	25,208	144,966
Materials and supplies	317,314	23,237	340,551
Nutritional support	234,719	2,166	236,885
Sales, marketing and community relations	18,915	-	18,915
Travel and entertainment	11,855	9,818	21,673
Interest expense	-	81,461	81,461
Rent and facilities	364,322	-	364,322
Depreciation	301,442	-	301,442
Insurance	-	53,422	53,422
Repairs and maintenance	222,882	-	222,882
Miscellaneous	-	310	310
	<u>\$ 4,445,291</u>	<u>\$ 2,140,829</u>	<u>\$ 6,586,120</u>

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,408,304	\$ 1,475,026
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	479,410	301,442
Effects of changes in operating assets and liabilities:		
Grants receivable	(340,906)	(331,170)
Related party receivable	(62,675)	-
Related party loan receivable	125,542	(146,466)
Prepaid assets	(69,779)	60,690
Accounts payable - trade	22,385	234,698
Accounts payable - affiliate	39,445	-
Accrued liabilities	32,933	136,036
	<u>1,634,659</u>	<u>1,730,256</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(566,660)	(1,315,452)
Security deposit	(1,000,000)	-
	<u>(1,566,660)</u>	<u>(1,315,452)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(160,940)	(52,928)
	<u>(160,940)</u>	<u>(52,928)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(92,941)	361,876
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,867,486</u>	<u>1,505,610</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,774,545</u>	<u>\$ 1,867,486</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property acquired with proceeds from long term debt	<u>\$ -</u>	<u>\$ 6,000,000</u>
Interest paid	<u>\$ 227,493</u>	<u>\$ 81,461</u>

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The George and Veronica Phalen Leadership Academies (PLA) is a nonprofit network of tuition-free public schools that help children excel in their academics and grow as well-rounded individuals. PLA’s model builds on best practices in personalized learning, effective teaching, and social-emotional development to create an individualized, rigorous, and well-rounded learning experience. At PLA, scholars have a safe and caring learning environment. PLA only hires educators who truly care about our students and families. Scholars grow socially, emotionally, and physically through art, music, physical fitness, college visits, scholar-led community service projects, and more. At schools with an extended day and additional resources, scholars have 1-to-1 access to the latest technology and award-winning educational software. Embedded throughout our program is an emphasis on helping our scholars develop a strong sense of self and character; build connections to their community and futures; and thrive as leaders at home, in their communities, and in the world.

To achieve these goals, PLA employs three distinct business models to operate its’ schools:

The Direct Model

Under this model, PLA opens and operates new charter schools primarily in the state of Indiana. Our approach builds on the success of Founder and CEO Earl Martin Phalen’s 25-year pioneering track record in education. Phalen and his team were approved in 2012 to open 10 charter schools to ultimately serve 10,000 children living in low-income communities across Indiana each year.

PLA’s first school, the George and Veronica Phalen Leadership Academy (“GVPLA”), opened in 2013. GVPLA’s scholars exceeded the statewide average on Indiana’s third grade reading exam (IREAD) for the third consecutive year in 2016-17, and on the state test (ISTEP), scholars have outperformed local peers by 15% each year.

In addition to GVPLA, PLA also opened the James and Rosemary Phalen Leadership Academy (JRPLA) as a Middle School in July 2017.

Both Direct Model schools are located in Indianapolis, Indiana.

The Turnaround Model

Under this model, PLA operates Innovation Network schools for the Indianapolis Public School System (IPS) to turn them around into high performing schools. Based on strong performance, PLA was selected in 2015 to turn around one of IPS’s lowest-performing schools, School #103 (PLA 103). We have since transformed this Innovation Network School’s culture and environment, attracting nearly 150 additional families and children. Last year, scholars increased their IREAD scores by 32% on the first take – among the highest growth in Central Indiana – and the school’s accountability score increased for the first time in decades. Preliminary data indicates that scholars made significant progress on state exams in 2016-17, including nearly 5% growth on the ISTEP. Building on the successes achieved at GVPLA and PLA 103, PLA has

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

been able to impact the lives of more children by turning around more chronically low-performing schools.

PLA was selected by IPS to operate a 2nd Innovation Network School in 2016 and opened the Phalen Leadership Academy at George Fisher (PLA 93) in July 2016.

Expenses incurred by PLA on behalf of the schools are reimbursed by IPS. All revenues received from IPS for the operation of PLA 103 and PLA93 are captured as Operator Revenue in the Statement of Activities.

The CMO

PLA utilizes the Central Management Office (CMO) to expand its turnaround model to help more children attending chronically low-performing schools excel. PLA enters into management agreements with these schools to leverage the Turnaround Model. Under these agreements, PLA is paid a management fee for services related to operating the school; however the school is responsible for acceptance and payment of all expenses. In 2016, PLA entered into a management agreement with the Thea Bowman Leadership Academy to manage two schools in Gary, Indiana.

In 2017, PLA entered into management agreements with the Timothy L. Johnson Academy in Fort Wayne, Indiana and the Michigan Educational Choice Center in Detroit, Michigan. Management fees received under these CMO agreements are recorded as Operator Revenue in the Statement of Activities.

Our school turnaround model (including the CMO) has an impressive track record of raising student achievement. At one school using this model, the number of children passing the ELA and math ISTEP grew by 11% in 2015-16 – the highest growth in Central Indiana. In total, we have transformed five schools that received an “F” rating from the state to “A” rated schools using this approach.

PLA now serves approximately 4,000 scholars in Indianapolis, Fort Wayne, and Gary Indiana and Detroit, Michigan. Our ultimate goal is that scholars master key academic skills, and demonstrate strong character, as exhibited by: honesty, service to others, a superior work ethic, and a strong vision for and belief in their futures. We believe that with the right education, all children can fulfill their tremendous innate potential.

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.

Cash and Cash Equivalents

PLA considers all demand accounts to be cash.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Receivable

Grants receivable represent the uncollected portion of funds from grants awarded to PLA. 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 and improvements	30 years
Leasehold improvements	30 years
Furniture and equipment	7 - 15 years
Books and educational materials	5 years
Computer software and equipment	3 years

Impairment of Long-lived Assets

On an ongoing basis, PLA reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may be overstated. PLA 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.

Security Deposit

Upon closing of the purchase of the building for JRPLA, PLA was obligated to make a one time cash deposit that would be applied to the PLA's future purchase of the property. This deposit is not refundable.

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.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classifications (Continued)

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. In 2016, PLA had certain gift funds temporarily restricted to provide education assistance to staff members and also unexpended grant amounts relating to completion of a specific project.

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, 2017 and 2016.

Support and Revenue

Revenue is recognized when earned. Program service expenses and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions and donations, as well as grant revenues are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Contributions and Donations – PLA reports gifts of cash and other assets from various organizations and private donors 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. Contributions of goods or other items are recognized based on their fair value at the date of contribution. There were no contributions of services or goods for the years ended June 30, 2017 and 2016.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue (Continued)

Contributions and Donations (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.

Grant Revenue – PLA receives monies from federal and state organizations, primarily under the Direct Model in which PLA is the direct recipient of the related grant.

School Breakfast, Lunch and Textbook Reimbursement – PLA receives monies from the State of Indiana for reimbursement of the school lunch program primarily under the Direct Model in which PLA is the direct recipient of the monies.

Operator Revenue – Operator revenue consists of the monies received under the agreements under Turnaround and CMO Model schools. This represents fees related to those management services, as well as any reimbursement for expenses incurred by PLA on the individual school's behalf.

Advertising

PLA expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2017 and 2016 totaled \$24,718 and \$15,903, respectively.

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. PLA 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 PLA and recognize a tax liability if PLA 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 PLA, and has concluded that as of June 30, 2017, 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.

Subsequent Events

Management evaluated subsequent events through December 28, 2017, the date the financial statements were available to be issued. Management has determined that no subsequent events exist.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

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

New Accounting Standards

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued amended guidance regarding the presentation of financial statements of not-for-profit entities to improve the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The guidance requires information regarding liquidity and the financial assets available to satisfy near-term demands for cash, requires inclusion of a statement of functional expenses, and alters the net asset classifications. The guidance also requires both qualitative and quantitative disclosures regarding the types of costs that can be allocated and management and general activities. The guidance will initially be applied using a retrospective approach. The standard will be effective for the entity for annual periods beginning after December 15, 2018, and early adoption is permitted and encouraged. Management is evaluating the impact of the amended financial statement presentation guidance on the entity's financial statements.

Revenue from Contracts with Customers

In May 2014, the (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for periods beginning after December 15, 2016. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

NOTE 2 NOTES PAYABLE

PLA notes payable consists of the following at December 31, 2017 and 2016:

<u>Description</u>	<u>2017</u>	<u>2016</u>
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.	\$ 850,089	\$ 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>2,903,056</u>	<u>2,975,576</u>
Total	3,753,145	3,863,492
Less: current portion	<u>129,156</u>	<u>117,175</u>
Notes payable less current portion	<u>\$ 3,623,989</u>	<u>\$ 3,746,317</u>

PLA is in compliance with all loan covenants associated with the note payable at 3.27% as of June 30, 2017 and 2016, respectively.

Future maturities of all notes payable, including related party notes payable (see Note 7), are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 181,809
2019	182,534
2020	190,196
2021	870,976
2022	155,398
Thereafter	<u>4,205,219</u>
Total	<u>\$ 5,786,132</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 SUMMARY OF GRANTS/CONTRACTS FUNDING

PLA received funds through the following grants and contracts for the period July 1, 2016 to June 30, 2017.

Funding Source	CFDA #	Grant Contract Number	Grant Contract Period	Total Grant	Recognized Support
Federal					
Indiana Department of Education	84.010A	17-9925	7/1/16 - 6/30/17	\$ 198,742	\$ 198,742
Indiana Department of Education	84.377A	S377A00120015	Reimbursement	<u>320,223</u>	<u>320,223</u>
Total federal government				<u>518,965</u>	<u>518,965</u>
Foundation and corporate					
Indiana Department of Education		N/A	7/1/16 - 6/30/17	157,000	157,000
Indiana Department of Education		N/A	7/1/16 - 6/30/17	2,083,198	2,083,198
Indianapolis Public Schools		N/A	7/1/16 - 6/30/17	283,837	283,837
Serve Indiana		N/A	7/1/16 - 6/30/17	64,031	64,031
The Louis Calder Foundation		N/A	2016-2017	50,000	50,000
Stifel Nickolaus		N/A	7/1/16 - 6/30/17	10,000	10,000
Indianapolis Public Schools		N/A	2016-2017	191,724	191,724
Central Indiana Community Foundation, Inc.		N/A	2016-2017	366,609	69,652
Serve Indiana		N/A	7/1/16 - 6/30/17	96,376	96,376
New School Venture Fund		N/A	N/A	300,000	300,000
Deborah Simon		N/A	N/A	50,000	50,000
Samerian Foundation		N/A	N/A	50,000	50,000
The Mind Trust, Inc.		N/A	N/A	50,000	11,000
Jim and Rosemary Phalen		N/A	N/A	250,000	250,000
Herbert Simon Family Foundation		N/A	N/A	379,000	265,000
Miscellaneous grants and contracts		N/A	N/A	<u>-</u>	<u>24,263</u>
Total foundation and corporate				<u>4,381,775</u>	<u>3,956,081</u>
Contract Revenue					
Indianapolis Public Schools		N/A	7/1/16 - 6/30/17	<u>7,346,404</u>	<u>7,346,404</u>
Total contract revenue				<u>7,346,404</u>	<u>7,346,404</u>
Total grants and contracts				<u>\$ 12,247,144</u>	<u>\$ 11,821,450</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 SUMMARY OF GRANTS/CONTRACTS FUNDING (CONTINUED)

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	<u>200,815</u>	<u>200,815</u>
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	<u>51,031</u>	<u>51,031</u>
Total foundation and corporate				<u>5,969,919</u>	<u>4,054,908</u>
Contract Revenue					
Indianapolis Public Schools		N/A	7/1/15 - 6/30/16	<u>3,307,934</u>	<u>3,307,934</u>
Total contract revenue				<u>3,307,934</u>	<u>3,307,934</u>
Total grants and contracts				<u>\$ 10,547,368</u>	<u>\$ 8,058,230</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 CONCENTRATION OF CREDIT RISK

PLA maintains its cash in bank accounts at a single financial institution. At June 30, 2017, balances in PLA's deposit accounts were insured by the FDIC up to \$250,000 per depositor bank. As of June 30, 2017 and 2016 and from time to time throughout the year, PLA has cash balances on deposit in excess of insured limits.

Credit risk related to grants receivable is limited due to PLA's ability to accomplish the terms of the grants. No credit losses related to grants receivable were incurred during the year ended June 30, 2017.

PLA receives operating funds from the Indiana Department of Education which amounted to 23% and 35% of the total revenue and contributed support for the years ended June 30, 2017 and 2016, respectively. Operating revenues are determined under a state funding formula based on the number of students enrolled during the school year.

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

In May 2017, PLA entered into a 15 year lease agreement for its JRPLA facility that commenced August 2017 and continues through June 2032. The base monthly rent for the space under the agreement is 122% of the Landlord's Debt Service Coverage Payments (variable) for the first two lease years with an annual increase of 1% thereafter. Amount of actual payments is based on the "Total Project Cost for the Project". Additionally, there is a provision in the lease that grants PLA the option to renew the lease for two additional five-year periods beyond the original lease term. Since the lease did not commence until August 2017, there were no amounts recorded for rent expense for the year ended June 30, 2017.

As part of the lease, PLA has an option to purchase the building. PLA can exercise this right at any time during the lease term. Closing of the purchase option must take place within 120 days of notice and prior to the end of the lease term. PLA was required to make a one-time cash deposit of \$1,000,000 towards its future purchase of the property. This deposit shall be applied to the future purchase price of the property and is non-refundable.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 LEASES (CONTINUED)

Future minimum lease payments remaining under this operating lease are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 281,681
2019	307,288
2020	316,507
2021	326,002
2022	335,782
Thereafter	5,168,076
Total	<u>\$ 6,735,336</u>

PLA had entered into an operating lease arrangement for the rental of a school facility for GVPLA, 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 and no rent expense for the year ending June 30, 2017. Rent expense for the year ended June 30, 2016 was \$364,322.

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, 2017 and 2016 were \$186,728 and \$118,588, respectively.

NOTE 7 RELATED PARTY TRANSACTIONS

PLA is a wholly owned subsidiary of Entrepreneurial Ventures in Education, Inc. d/b/a Summer Advantage (Summer Advantage). PLA receives support from Summer Advantage for operations and equipment. There was a \$20,924 loan receivable due from Summer Advantage at June 30, 2017. This loan is due to be repaid in eighteen monthly installments of \$10,462 plus interest at prime rate (3.50% at June 30, 2017). An amount of \$146,466 was due under this agreement at June 30, 2016.

PLA paid Summer Advantage approximately \$1,063,000 and \$1,014,000 in the years ended June 30, 2017 and 2016, respectively, for reimbursement of management related functions. There were no outstanding amounts due to Summer Advantage at June 30, 2017 and 2016.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

PLA is also under common control of the Timothy L Johnson Academy, which is located in Fort Wayne, Indiana, the Thea Bowman Leadership Academy, which is located in Gary, Indiana, and the Michigan Educational Choice Center, which is located in Detroit, Michigan. As of June 30, 2017, the PLA had receivables from the Timothy L Johnson Academy and the Michigan Educational Choice Center of \$29,510 and \$33,065, respectively. As of June 30, 2017, the PLA had payables due to the Thea Bowman Leadership Academy of \$39,445. There were no related party receivables or payables among these affiliates for the year ended June 30, 2016.

In February 2016, the GVPLA entered into a 25 year operating lease for \$2,100,000 for its school facility with a member of the Board. That organization is controlled by a separate and independent board of directors. PLA is required to make monthly rental payments in the amount of \$11,085 and an interest rate of 4%. As of June 30, 2017 and 2016, principal payments have been made of \$67,013 and \$16,420, respectively.

Related party notes payable consist of the following at December 31, 2017 and 2016:

<u>Description</u>	<u>2017</u>	<u>2016</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.	\$ 2,032,987	\$ 2,083,580
Less: current portion	<u>52,653</u>	<u>50,593</u>
Related party notes payable less current portion	<u>\$ 1,980,334</u>	<u>\$ 2,032,987</u>

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$5,721 at June 30, 2017 are restricted for specific purpose restrictions, as defined by the grantors. While restrictions are based on specific purpose, PLA 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 temporarily restricted net asset balance consisted of the following which were released during the year ended June 30, 2017:

Building use restriction satisfied	\$ 25,000
Time restriction satisfied	561,770
	<u>\$ 586,770</u>

During the year ended June 30, 2016, the following temporarily restricted net assets were released from donor restrictions by satisfying the specific time restrictions:

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

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF FINANCIAL POSITION BY SCHOOL
JUNE 30, 2017

ASSETS	GVPLA	PLA 103	PLA 93	CMO	JRPLA	Cincinnati	Eliminations	Total
CURRENT ASSETS								
Cash and cash equivalents	\$ 569,048	\$ 432,232	\$ 283,901	\$ 26,898	\$ 462,466	\$ -	\$ -	\$ 1,774,545
Grants receivable	118,439	1,276,386	320,223	-	-	-	(1,036,910)	678,138
Related party accounts receivable	62,575	-	-	100	-	-	-	62,675
Related party loan receivable	-	20,924	-	-	-	-	-	20,924
Prepaid assets	9,011	31,626	29,142	-	-	-	-	69,779
Total current assets	759,073	1,761,168	633,266	26,998	462,466	-	(1,036,910)	2,606,061
PROPERTY AND EQUIPMENT								
Land	771,200	-	-	-	-	-	-	771,200
Building and improvements	6,004,048	-	-	-	-	-	-	6,004,048
Leasehold improvements	5,500	-	108,213	-	-	-	-	113,713
Furniture and equipment	399,843	206,824	-	-	-	-	-	606,667
Books and educational materials	150,464	266,348	200,406	-	-	-	-	617,218
Computer software	42,792	-	-	-	-	-	-	42,792
Computer equipment	134,473	86,625	-	-	73,075	-	-	294,173
Total, at cost	7,508,320	559,797	308,619	-	73,075	-	-	8,449,811
Less accumulated depreciation	764,845	180,875	26,096	-	-	-	-	971,816
Total furniture and equipment	6,743,475	378,922	282,523	-	73,075	-	-	7,477,995
OTHER ASSETS								
Security deposit	-	-	-	-	1,000,000	-	-	1,000,000
TOTAL ASSETS	\$ 7,502,548	\$ 2,140,090	\$ 915,789	\$ 26,998	\$ 1,535,541	\$ -	\$ (1,036,910)	\$ 11,084,056
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts payable	\$ 154,802	\$ 99,191	\$ 120,024	\$ 13,332	\$ 1,040,166	\$ -	\$ (1,036,910)	\$ 390,605
Related party payables	-	-	-	39,445	-	-	-	39,445
Current portion of notes payable	129,156	-	-	-	-	-	-	129,156
Current portion of notes payable - affiliate	52,653	-	-	-	-	-	-	52,653
Accrued liabilities	54,853	95,144	47,011	-	-	-	-	197,008
Total current liabilities	391,464	194,335	167,035	52,777	1,040,166	-	(1,036,910)	808,867
LONG-TERM LIABILITIES								
Notes payable, net of current portion	3,623,989	-	-	-	-	-	-	3,623,989
Notes payable, net of current portion - affiliate	1,980,334	-	-	-	-	-	-	1,980,334
Total long-term liabilities	5,604,323	-	-	-	-	-	-	5,604,323
Total liabilities	5,995,787	194,335	167,035	52,777	1,040,166	-	(1,036,910)	6,413,190
NET ASSETS								
Unrestricted	1,501,040	1,945,755	748,754	(25,779)	495,375	-	-	4,665,145
Temporarily restricted	5,721	-	-	-	-	-	-	5,721
Total net assets	1,506,761	1,945,755	748,754	(25,779)	495,375	-	-	4,670,866
TOTAL LIABILITIES AND NET ASSETS	\$ 7,502,548	\$ 2,140,090	\$ 915,789	\$ 26,998	\$ 1,535,541	\$ -	\$ (1,036,910)	\$ 11,084,056

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

ASSETS	GVPLA	PLA 103	PLA 93	CMO	JRPLA	Cincinnati	Eliminations	Total
CURRENT ASSETS								
Cash and cash equivalents	\$ 280,945	\$ 1,045,903	\$ 40,638	\$ -	\$ -	\$ 500,000	\$ -	\$ 1,867,486
Grants receivable	42,996	294,236	-	-	-	-	-	337,232
Related party accounts receivable	-	-	-	-	-	-	-	-
Related party loan receivable	-	146,466	-	-	-	-	-	146,466
Prepaid assets	-	-	-	-	-	-	-	-
Total current assets	<u>323,941</u>	<u>1,486,605</u>	<u>40,638</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>2,351,184</u>
PROPERTY AND EQUIPMENT								
Land	771,200	-	-	-	-	-	-	771,200
Building and improvements	6,009,548	-	-	-	-	-	-	6,009,548
Leasehold improvements	-	-	-	-	-	-	-	-
Furniture and equipment	399,843	122,735	-	-	-	-	-	522,578
Books and educational materials	104,782	175,682	76,564	-	-	-	-	357,028
Computer software	42,792	-	-	-	-	-	-	42,792
Computer equipment	116,281	63,725	-	-	-	-	-	180,006
Total, at cost	<u>7,444,446</u>	<u>362,142</u>	<u>76,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,883,152</u>
Less accumulated depreciation	<u>419,896</u>	<u>72,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>492,407</u>
Total furniture and equipment	<u>7,024,550</u>	<u>289,631</u>	<u>76,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,390,745</u>
OTHER ASSETS								
Security deposit	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u><u>\$ 7,348,491</u></u>	<u><u>\$ 1,776,236</u></u>	<u><u>\$ 117,202</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,741,929</u></u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts payable	\$ 99,569	\$ 186,887	\$ 76,564	\$ 5,200	\$ -	\$ -	\$ -	\$ 368,220
Related party payables	-	-	-	-	-	-	-	-
Current portion of notes payable	117,175	-	-	-	-	-	-	117,175
Current portion of notes payable - affiliate	50,593	-	-	-	-	-	-	50,593
Accrued liabilities	68,632	89,800	5,643	-	-	-	-	164,075
Total current liabilities	<u>335,969</u>	<u>276,687</u>	<u>82,207</u>	<u>5,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,063</u>
LONG-TERM LIABILITIES								
Notes payable, net of current portion	3,746,317	-	-	-	-	-	-	3,746,317
Notes payable, net of current portion - affiliate	2,032,987	-	-	-	-	-	-	2,032,987
Total long-term liabilities	<u>5,779,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,779,304</u>
Total liabilities	<u>6,115,273</u>	<u>276,687</u>	<u>82,207</u>	<u>5,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,479,367</u>
NET ASSETS								
Unrestricted	1,206,481	1,439,516	34,995	(5,200)	-	-	-	2,675,792
Temporarily restricted	26,737	60,033	-	-	-	500,000	-	586,770
Total net assets	<u>1,233,218</u>	<u>1,499,549</u>	<u>34,995</u>	<u>(5,200)</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>3,262,562</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,348,491</u></u>	<u><u>\$ 1,776,236</u></u>	<u><u>\$ 117,202</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,741,929</u></u>

**THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF ACTIVITIES BY SCHOOL
YEAR ENDED JUNE 30, 2017**

	GVPLA			PLA 103			PLA93		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
	REVENUE AND CONTRIBUTED SUPPORT								
REVENUE									
Contributions and donations	\$ 174,663	\$ -	\$ 174,663	457,752	\$ -	\$ 457,752	\$ 211,000	\$ -	\$ 211,000
Grant revenue	2,506,850	5,721	2,512,571	-	-	-	320,223	-	320,223
School breakfast, lunch and textbook reimbursement	283,837	-	283,837	-	-	-	-	-	-
Operator revenue	-	-	-	3,801,190	-	3,801,190	2,778,200	-	2,778,200
Other revenue	503,563	-	503,563	-	-	-	-	-	-
Total revenue	<u>3,468,913</u>	<u>5,721</u>	<u>3,474,634</u>	<u>4,258,942</u>	<u>-</u>	<u>4,258,942</u>	<u>3,309,423</u>	<u>-</u>	<u>3,309,423</u>
Net assets released from restrictions	26,737	(26,737)	-	60,033	(60,033)	-	-	-	-
Total revenue and support	3,495,650	(21,016)	3,474,634	4,318,975	(60,033)	4,258,942	3,309,423	-	3,309,423
EXPENSES									
Program services	2,424,592	-	2,424,592	2,339,770	-	2,339,770	1,729,408	-	1,729,408
Supporting services									
General and administrative	776,499	-	776,499	1,472,966	-	1,472,966	866,256	-	866,256
Total expenses	<u>3,201,091</u>	<u>-</u>	<u>3,201,091</u>	<u>3,812,736</u>	<u>-</u>	<u>3,812,736</u>	<u>2,595,664</u>	<u>-</u>	<u>2,595,664</u>
CHANGE IN NET ASSETS	294,559	(21,016)	273,543	506,239	(60,033)	446,206	713,759	-	713,759
NET ASSETS, BEGINNING OF YEAR	<u>1,206,481</u>	<u>26,737</u>	<u>1,233,218</u>	<u>1,439,516</u>	<u>60,033</u>	<u>1,499,549</u>	<u>34,995</u>	<u>-</u>	<u>34,995</u>
NET ASSETS, END OF YEAR	<u>\$ 1,501,040</u>	<u>\$ 5,721</u>	<u>\$ 1,506,761</u>	<u>\$ 1,945,755</u>	<u>\$ -</u>	<u>\$ 1,945,755</u>	<u>\$ 748,754</u>	<u>\$ -</u>	<u>\$ 748,754</u>

**THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF ACTIVITIES BY SCHOOL
YEAR ENDED JUNE 30, 2017**

	CMO			JRPLA			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	\$ -	\$ -	\$ -	\$ 515,000	\$ -	\$ 515,000	\$ -	\$ -	\$ -	\$ 1,358,415	\$ -	\$ 1,358,415
Grant revenue	-	-	-	-	-	-	-	-	-	2,827,073	5,721	2,832,794
School breakfast, lunch and textbook reimbursement	-	-	-	-	-	-	-	-	-	283,837	-	283,837
Operator revenue	767,014	-	767,014	-	-	-	-	-	-	7,346,404	-	7,346,404
Other revenue	-	-	-	-	-	-	(500,000)	-	(500,000)	3,563	-	3,563
Total revenue	767,014	-	767,014	515,000	-	515,000	(500,000)	-	(500,000)	11,819,292	5,721	11,825,013
Net assets released from restrictions	-	-	-	-	-	-	500,000	(500,000)	-	586,770	(586,770)	-
Total revenue and support	767,014	-	767,014	515,000	-	515,000	-	(500,000)	(500,000)	12,406,062	(581,049)	11,825,013
EXPENSES												
Program services	271	-	271	19,143	-	19,143	-	-	-	6,513,184	-	6,513,184
Supporting services												
General and administrative	787,322	-	787,322	482	-	482	-	-	-	3,903,525	-	3,903,525
Total expenses	787,593	-	787,593	19,625	-	19,625	-	-	-	10,416,709	-	10,416,709
CHANGE IN NET ASSETS	(20,579)	-	(20,579)	495,375	-	495,375	-	(500,000)	(500,000)	1,989,353	(581,049)	1,408,304
NET ASSETS, BEGINNING OF YEAR	(5,200)	-	(5,200)	-	-	-	-	500,000	500,000	2,675,792	586,770	3,262,562
NET ASSETS, END OF YEAR	<u>\$ (25,779)</u>	<u>\$ -</u>	<u>\$ (25,779)</u>	<u>\$ 495,375</u>	<u>\$ -</u>	<u>\$ 495,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,665,145</u>	<u>\$ 5,721</u>	<u>\$ 4,670,866</u>

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

	GVPLA			PLA 103			PLA93		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND CONTRIBUTED SUPPORT									
REVENUE									
Contributions and donations	\$ 862,400	\$ -	\$ 862,400	716,896	\$ -	\$ 716,896	\$ 44,100	\$ -	\$ 44,100
Grant revenue	2,203,872	-	2,203,872	-	-	-	-	-	-
School breakfast, lunch and textbook reimbursement	273,028	-	273,028	-	-	-	-	-	-
Operator revenue	-	-	-	3,307,934	-	3,307,934	-	-	-
Other revenue	2,916	-	2,916	-	-	-	-	-	-
Total revenue	3,342,216	-	3,342,216	4,024,830	-	4,024,830	44,100	-	44,100
Net assets released from restrictions	848,263	(848,263)	-	154,340	(154,340)	-	-	-	-
Total revenue and support	4,190,479	(848,263)	3,342,216	4,179,170	(154,340)	4,024,830	44,100	-	44,100
EXPENSES									
Program services	2,639,442	-	2,639,442	1,791,544	-	1,791,544	9,105	-	9,105
Supporting services									
General and administrative	969,501	-	969,501	1,021,328	-	1,021,328	-	-	-
Total expenses	3,608,943	-	3,608,943	2,812,872	-	2,812,872	9,105	-	9,105
CHANGE IN NET ASSETS	581,536	(848,263)	(266,727)	1,366,298	(154,340)	1,211,958	34,995	-	34,995
NET ASSETS, BEGINNING OF YEAR	624,945	875,000	1,499,945	73,218	214,373	287,591	-	-	-
NET ASSETS, END OF YEAR	<u>\$ 1,206,481</u>	<u>\$ 26,737</u>	<u>\$ 1,233,218</u>	<u>\$ 1,439,516</u>	<u>\$ 60,033</u>	<u>\$ 1,499,549</u>	<u>\$ 34,995</u>	<u>\$ -</u>	<u>\$ 34,995</u>

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

	CMO			JRPLA			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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,623,396	\$ -	\$ 1,623,396
Grant revenue	-	-	-	-	-	-	-	650,000	650,000	2,203,872	650,000	2,853,872
School breakfast, lunch and textbook reimbursement	-	-	-	-	-	-	-	-	-	273,028	-	273,028
Operator revenue	-	-	-	-	-	-	-	-	-	3,307,934	-	3,307,934
Other revenue	-	-	-	-	-	-	-	-	-	2,916	-	2,916
Total revenue	-	-	-	-	-	-	-	650,000	650,000	7,411,146	650,000	8,061,146
Net assets released from restrictions	-	-	-	-	-	-	150,000	(150,000)	-	1,152,603	(1,152,603)	-
Total revenue and support	-	-	-	-	-	-	150,000	500,000	650,000	8,563,749	(502,603)	8,061,146
EXPENSES												
Program services	5,200	-	5,200	-	-	-	-	-	-	4,445,291	-	4,445,291
Supporting services												
General and administrative	-	-	-	-	-	-	150,000	-	150,000	2,140,829	-	2,140,829
Total expenses	5,200	-	5,200	-	-	-	150,000	-	150,000	6,586,120	-	6,586,120
CHANGE IN NET ASSETS	(5,200)	-	(5,200)	-	-	-	-	500,000	500,000	1,977,629	(502,603)	1,475,026
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-	-	-	-	698,163	1,089,373	1,787,536
NET ASSETS, END OF YEAR	\$ (5,200)	\$ -	\$ (5,200)	\$ -	\$ -	\$ -	\$ -	\$ 500,000	\$ 500,000	\$ 2,675,792	\$ 586,770	\$ 3,262,562



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 at June 30, 2017, and the related statements of activities and cash flows for the year then ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit 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 entity'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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs in which the findings are reported, that we consider to be material weaknesses. See finding 2017-01.

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*.

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

The Phalen Leadership Academy – Indiana, Inc.’s Response to Findings

The Phalen Leadership Academy – Indiana, Inc.’s response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Phalen Leadership Academy – Indiana, Inc.’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



CliftonLarsonAllen LLP

Indianapolis, Indiana
December 28, 2017

**THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PERIOD FROM JULY 1, 2016 THROUGH JUNE 30, 2017**

Section II – Financial Statement Findings

2017 – 01

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: Material adjusting entries and reclassifying journal entries were identified during the conduct of the audit to properly state the following accounts in the financial statements: adjusting entries – temporarily restricted revenue, net assets, prepaid expenses; reclassifying entries – accounts payable, cash, notes payable, and notes payable – related party.

Criteria or specific requirement: Management of the School should maintain policies, procedures and internal controls sufficient to capture all information necessary to present its' financial statements in accordance with accounting principles generally accepted in the United States.

Context: During our audit of these financial statement areas, we noted certain balances were incorrect.

Effect: Material adjustments were required to fairly state the Schools' financial statements.

Cause: Management's review of these financial statement areas did not identify the misstatements timely resulting in incorrect balances. Procedures and internal controls of the School failed to prevent or detect these errors.

Recommendation: We recommend that management review controls related to financial statement preparation review at the end of each period. Financial statement preparation should include a review of reconciliations and balances to ensure that financial statement line items are properly stated and classified. Internally prepared financial statements should also be reviewed by members of management outside the finance department on a periodic (monthly or quarterly).

Views of responsible officials and planned corrective actions: We recognize the issue which occurred due to a lack of review of the financial statements. To rectify the situation, we applied all proposed adjustments to properly state the financial statements. Based on this, we believe this issue will be rectified for FY2018.