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November 26, 2018


Charter School Board
Alternatives in Education, Inc.
d/b/a Marion Academy
2107 N. Riley Ave
Indianapolis, IN 46218

We have reviewed the report prepared by Alternatives in Education, Inc. d/b/a Marion Academy and opined upon by Greenwalt CPAs, Inc., Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Alternatives in Education, Inc. d/b/a Marion Academy as of June 30, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Greenwalt CPAs, Inc. 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 Alternatives in Education, Inc. d/b/a Marion Academy, was prepared in accordance with the guidelines established by the State Board of Accounts.

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


Paul D. Joyce, CPA
State Examiner

ALTERNATIVES IN EDUCATION, INC.
D/B/A MARION ACADEMY

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

JUNE 30, 2018 AND 2017

GREENWALT^{CPAs}

We Deliver Peace of Mind

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Alternatives in Education, Inc. d/b/a Marion Academy:

We have audited the accompanying financial statements of Alternatives in Education, Inc. d/b/a Marion Academy (an Indiana public charter school), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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 *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, and *Guidelines of Audits of Charter Schools Performed by Private Examiners* established by the Indiana State Board of Accounts. 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 auditor considers internal control relevant to the Marion Academy'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 Marion Academy'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 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 Marion Academy as of June 30, 2018 and 2017, 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.

Greenwald CPAs, Inc.

October 29, 2018

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2018 AND 2017

<u>ASSETS</u>		
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 666,504	\$ 191,398
Grants receivable	15,257	384,882
Prepaid expenses	34,134	21,025
	<hr/>	<hr/>
<i>Total current assets</i>	715,895	597,305
PROPERTY AND EQUIPMENT, NET	393,042	566,137
	<hr/>	<hr/>
<i>Total assets</i>	<u>\$ 1,108,937</u>	<u>\$ 1,163,442</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES		
Accounts payable	\$ 29,639	\$ 163,349
Payroll and other accrued expenses	37,923	25,000
Deferred rent expense	5,500	22,000
Current portion of note and loan payable	109,388	105,889
	<hr/>	<hr/>
<i>Total current liabilities</i>	182,450	316,238
LONG-TERM LIABILITIES		
Note and loan payable, net of current portion and discount	364,890	463,364
	<hr/>	<hr/>
<i>Total liabilities</i>	547,340	779,602
COMMITMENTS AND CONTINGENCY (NOTES 4 AND 7)		
NET ASSETS		
Unrestricted	507,055	328,384
Unrestricted - board designated	30,000	20,000
	<hr/>	<hr/>
<i>Total unrestricted net assets</i>	537,055	348,384
Temporarily restricted	24,542	35,456
	<hr/>	<hr/>
<i>Total net assets</i>	561,597	383,840
<i>Total liabilities and net assets</i>	<u>\$ 1,108,937</u>	<u>\$ 1,163,442</u>

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND SUPPORT						
State education support	\$ 2,260,375	\$ -	\$ 2,260,375	\$ 1,867,654	\$ -	\$ 1,867,654
Federal funding	87,746	-	87,746	411,985	-	411,985
Contributions and grants, including in-kind of \$289,200 and \$394,737	290,660	-	290,660	395,137	-	395,137
Other	8,846	-	8,846	311	-	311
Net assets released from restriction	10,914	(10,914)	-	11,662	(11,662)	-
<i>Total revenue and support</i>	<u>2,658,541</u>	<u>(10,914)</u>	<u>2,647,627</u>	<u>2,686,749</u>	<u>(11,662)</u>	<u>2,675,087</u>
EXPENSES						
Salaries and wages	1,079,064	-	1,079,064	923,332	-	923,332
Payroll taxes	85,117	-	85,117	75,550	-	75,550
Employee benefits	107,329	-	107,329	105,308	-	105,308
Professional fees	359,098	-	359,098	528,062	-	528,062
Facilities	299,639	-	299,639	202,187	-	202,187
Supplies and materials	67,317	-	67,317	101,263	-	101,263
Information technology	66,120	-	66,120	70,009	-	70,009
Transportation	6,250	-	6,250	11,191	-	11,191
School lunch program	41,243	-	41,243	9,795	-	9,795
Nurse services	22,399	-	22,399	129,208	-	129,208
Insurance	56,669	-	56,669	64,744	-	64,744
Fundraising Expense	3,724	-	3,724	-	-	-
Depreciation and amortization	210,058	-	210,058	158,814	-	158,814
Interest	23,908	-	23,908	25,863	-	25,863
Other	41,935	-	41,935	23,475	-	23,475
<i>Total expenses</i>	<u>2,469,870</u>	<u>-</u>	<u>2,469,870</u>	<u>2,428,801</u>	<u>-</u>	<u>2,428,801</u>
CHANGE IN NET ASSETS	188,671	(10,914)	177,757	257,948	(11,662)	246,286
NET ASSETS, BEGINNING OF YEAR	<u>348,384</u>	<u>35,456</u>	<u>383,840</u>	<u>90,436</u>	<u>47,118</u>	<u>137,554</u>
NET ASSETS, END OF YEAR	<u>\$ 537,055</u>	<u>\$ 24,542</u>	<u>\$ 561,597</u>	<u>\$ 348,384</u>	<u>\$ 35,456</u>	<u>\$ 383,840</u>

See accompanying notes to financial statements.

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 177,757	\$ 246,286
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Depreciation and amortization	210,058	158,814
Discount on loan payable	10,914	11,662
<i>Increase in operating assets:</i>		
Grants receivable	369,625	(223,329)
Prepaid expenses	(13,109)	6,525
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	(71,109)	66,826
Payroll and other accrued liabilities	12,923	(6,032)
Deferred rent expense	(16,500)	(15,000)
	<u>680,559</u>	<u>245,752</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(99,564)</u>	<u>(155,436)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note and loan payables	<u>(105,889)</u>	<u>(83,812)</u>
NET CHANGE IN CASH	475,106	6,504
CASH, BEGINNING OF YEAR	<u>191,398</u>	<u>184,894</u>
CASH, END OF YEAR	<u>\$ 666,504</u>	<u>\$ 191,398</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest expense	<u>\$ 11,494</u>	<u>\$ 25,863</u>
NON-CASH INVESTING ACTIVITIES		
Property and equipment included in accounts payable	<u>\$ -</u>	<u>\$ 62,601</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ORGANIZATION

Alternatives in Education, Inc. d/b/a Marion Academy is an Indiana public charter middle school and high school with a mission to provide students who are not on a traditional academic path with a structured and supportive environment to prepare for either a post-secondary education or a career.

Marion Academy provides students who have been in the juvenile justice system, expelled or are at risk for expulsion with structured opportunities to earn an Indiana Core 40 high school diploma and in demand industry certifications. Graduates will be prepared for post-secondary education or jobs with higher than average wages.

For students who are located at the Marion County Juvenile Detention Center (MCJDC), Marion Academy (through its Hillside Academy program) will work to provide youth with a continuum of educational services to ensure students do not experience a gap in their education while at the MCJDC.

During 2016, Marion entered an agreement with Pride Academy to provide teachers and resources towards the education of middle school and high school students. This agreement concluded in June 2018.

Marion Academy is designed to ensure that students who are transitioning from another school or from the Hillside Academy and Pride Academy programs have an educational setting that focuses on preparing them for life after high school.

Marion Academy receives the majority of its funding from the Indiana Department of Education. Their revenues are supplemented with funds from the United States Department of Education, private grants, and in-kind support.

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The accompanying financial statements were prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Marion Academy considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2018 and 2017. Marion Academy maintained cash in excess of Federal Deposit Insurance Corporation (FDIC) limits of approximately \$429,000 at June 30, 2018. There was no such excess at June 30, 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, or if contributed, at the estimated fair value at the date of the gift. Marion Academy capitalizes additions of property and equipment greater than \$1,000 with a useful life greater than a year and that which extends the originally estimated economic life of the property and equipment that are capitalized. Depreciation and amortization is computed on the straight-line method over estimated useful lives ranging from 3 to 5 years once property and equipment is placed in service. Marion Academy does not own any real property. Routine maintenance and repairs are charged to expense as incurred.

At June 30, property and equipment included:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 337,126	\$ 276,930
Computer hardware and software	212,953	236,186
Textbooks	181,055	181,055
Furniture	135,102	135,102
Vehicles	<u>35,700</u>	<u>35,700</u>
	901,936	864,973
Accumulated depreciation	<u>(508,894)</u>	<u>(298,836)</u>
	<u>\$ 393,042</u>	<u>\$ 566,137</u>

NET ASSETS

In accordance with Accounting Standards for the Preparation of Financial Statement for Not-for-Profit Organizations, Marion Academy is required to report information regarding its financial position and activities according to three classes of net assets.

Marion Academy maintains the following classifications of net assets:

Unrestricted

These include revenue and expenses from the regular operations of Marion Academy, which are at the discretion of management and the Board of Directors.

Unrestricted – Board Designated

Marion Academy's charter is authorized through the Indiana Charter School Board (ICSB). The ICSB requires that each school establish an account held in escrow of \$30,000 no later than December of the third year of operations. The escrow account is designated for any potential dissolution of Marion Academy. At June 30, 2018 and 2017, Marion Academy held \$30,000 and \$20,000, respectively, in escrow which has been presented as board designated net assets in the statement of financial position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

NET ASSETS, CONTINUED

Temporarily Restricted

These include donations and grant revenues with restrictions specified by the donors or grantors. 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

Temporarily Restricted, Continued

released from restrictions. Temporarily restricted net assets at June 30, 2018 and 2017 consist of a contribution related to a below-market interest rate loan that will be released ratably over the life of the loan. See Note 2.

Permanently Restricted

These include assets which the donor has stipulated be maintained in perpetuity. 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. There were no permanently restricted net assets at June 30, 2018 and 2017

REVENUE RECOGNITION AND CONCENTRATION OF CREDIT RISK

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, Marion Academy 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 is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A portion of the Marion Academy's revenue is the product of cost reimbursement grants. Accordingly, Marion Academy recognizes revenue under these grants as costs are incurred.

In fiscal years 2018 and 2017, 88.7% and 85.2% of revenue came from the Indiana Department of Education, respectively.

CONTRIBUTIONS AND GRANTS

Contributions and grants received are recognized when the donor makes an unconditional promise to give to Marion Academy and are recorded at their fair values as revenues and assets in the period the promise is received. Contributions and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions or grants are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

All grants receivable are due within one year. In addition, all grants receivable are considered collectible and no allowance for doubtful accounts was deemed necessary by management at June 30, 2018 and 2017.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

CONTRIBUTED SERVICES

Pursuant to the Not-for-Profit Organizations Revenue Recognition Accounting Standards for contributed services, contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Marion Academy. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

Marion Academy received \$289,200 of in-kind contributions during the year ended June 30, 2018 for rent and staffing at the Pride Resource Center and Juvenile Detention Center. Marion Academy received \$394,737 of in-kind contributions during the year ended June 30, 2017 for rent, staffing, and nursing services at the Pride Resource Center and Juvenile Detention Center. These in-kind contributions have been included in contributions on the statement of activities. They have been treated as non-cash activities for the purposes of the statement of cash flows.

FUNCTIONAL EXPENSE

A summary of expenses by functional classification for the year ended June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Program	\$ 1,924,259	\$ 1,847,571
Management and administrative	541,887	581,230
Fundraising	<u>3,724</u>	<u>-</u>
Total functional expenses	<u>\$ 2,469,870</u>	<u>\$ 2,428,801</u>

SUBSEQUENT EVENTS

Subsequent events have been considered through October 29, 2018, which was the date the financial statements were available to be issued.

TAX STATUS

Marion Academy is an Indiana non-profit corporation and is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Marion Academy is not considered a private foundation as defined in Section 509(a) of the Internal Revenue Code.

2. **NOTE AND LOAN PAYABLE**

Marion Academy has a note payable with a financial lender which expires November 2020. The loan was \$350,000 with interest at the rate of 5% and requires monthly payments including principal and interest of \$6,605. At June 30, 2018 and 2017, the balance outstanding was \$180,070 and \$248,459, respectively.

Marion Academy obtained a loan from the State of Indiana through the Charter and Innovation School Advance Program for \$375,000 in January 2016, which matures in July 2026. The interest rate on the loan is 1% per annum and semi-annual payments of \$18,750 principal plus interest are being deducted from Marion Academy's monthly state tuition support payments beginning January 2017.

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018 AND 2017

2. NOTE AND LOAN PAYABLE, CONTINUED

The loan is considered below-market and, to reflect the time value of money, the liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 3.5%, which was Marion Academy's long-term borrowing rate at June 30, 2018 and 2017. The balance on the loan at June 30, 2018 and 2017 was \$318,750 and \$356,250, net of unamortized discount of \$24,542 and \$35,456, respectively.

The future aggregate minimum principal payments on the note and loan payable are as follows for the years ending June 30:

2019	109,388
2020	113,066
2021	70,116
2022	37,500
2023	37,500
Thereafter	131,250
Total note and loan payable	498,820
Less: current portion	(109,388)
Less: discount on loan payable	(24,542)
Long term portion	<u>\$ 364,890</u>

3. OPERATING LEASES

In June 2015, Marion Academy entered an agreement with The Board of School Commissioners of the City of Indianapolis through June 2022. Under the agreement, Marion Academy is permitted use of the Indianapolis Public Schools (IPS) Building located at 2107 North Riley Avenue in Indianapolis. Base lease payments escalate over the term of the lease. The lease includes a provision for annual enrollment caps. If Marion Academy exceeds the enrollment cap, an additional fee will be due based on the number of students over the cap times the per student rent. The per student rent is based on the annual lease payment divided by the enrollment cap. Rent expense for fiscal years 2018 and 2017 was \$172,000.

Marion Academy also leased office copiers and printers under two agreements which expire October 2020 and November 2022, respectively. These leases require minimum monthly payments of \$1,312 plus various charges for usage overages. Lease expense for equipment was \$10,153 and \$10,803 for fiscal years 2018 and 2017, respectively.

Future minimum payments for both of these agreements are as follows for the years ending June 30:

2019	\$	180,645
2020		198,145
2021		198,145
2022		198,145
2023		1,882
Total	<u>\$</u>	<u>776,962</u>

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018 AND 2017

4. RETIREMENT PLANS

Marion Academy provides retirement benefits for teaching personnel by participating in the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan 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. In 2017, Marion Academy contributed 6% of compensation for teaching faculty to TRF. Should Marion Academy elect to withdraw from TRF, Marion Academy could be subject to a withdrawal fee. Marion Academy's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2017 (the latest year reported), TRF was more than 85% funded. A copy of the complete annual report for the year ended June 30, 2017 can be obtained at:

https://www.in.gov/inprs/files/2017_INPRSCAFRBookWeb.pdf

In fiscal years 2018 and 2017, the retirement plan expense under the TRF was \$25,026 and \$28,110, respectively.

5. FEDERAL, STATE, AND LOCAL GRANT AWARDS

In accordance with guidelines established by the Indiana State Board of Accounts, this federal, state, and local grant information was included to aid in the verification of Indiana financial assistance on the Annual Financial Report (AFR).

Program Name	Grantor Name	CFDA	Revenue	Expense	Funding Type
Title I, Part A Cluster	Indiana Department of Education	84.010	\$81,061	\$81,061	Federal grant passed through state or local government
Special Education Cluster (IDEA, Part B)	Indiana Department of Education	84.027	\$6,685	\$6,685	Federal grant passed through state or local government
Basic Tuition Support	Indiana Department of Education	N/A	\$2,118,120	\$2,118,120	State or Local Government
Charter School Grant	Indiana Department of Education	N/A	\$121,000	\$121,000	State or Local Government
Medicaid Reimbursement	Indiana Department of Education	N/A	\$3,176	\$3,176	State or Local Government
State Textbook Reimbursement	Indiana Department of Education	N/A	\$14,165	\$14,165	State or Local Government
Summer School Reimbursement	Indiana Department of Education	N/A	\$3,914	\$3,914	State or Local Government
		Total	\$2,348,121	\$2,348,121	

ALTERNATIVES IN EDUCATION, INC. D/B/A MARION ACADEMY
OTHER REPORT
JUNE 30, 2018

The reports presented herein were prepared in addition to another report prepared for Marion Academy as listed below:

Supplemental Audit Report of Alternatives in Education, Inc. d/b/a Marion Academy