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April 5, 2019

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


We have reviewed the audit report of The Phalen Leadership Academy - Indiana, Inc. which was opined upon by CliftonLarsonAllen LLP, 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 The Phalen Leadership Academy - Indiana, Inc. 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.

We call your attention to the finding in the report on pages 28 through 29. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding.

In our opinion, CliftonLarsonAllen LLP prepared the audit report in accordance with 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**

**YEAR ENDED JUNE 30, 2018**

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
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**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.  
OTHER REPORTS  
YEAR ENDED JUNE 30, 2018**

The report presented herein was prepared in addition to another official report prepared for The Phalen Leadership Academy – Indiana, Inc. 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 statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 PLA as of June 30, 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information – Supplementary Schedules*

The supplementary information included in the schedules of financial position and 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Other Information – Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated January 9, 2019, on our consideration of PLA’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 PLA’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 PLA’s internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Indianapolis, Indiana  
January 9, 2019

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 893,808
Grants Receivable	1,347,313
Related Party Accounts Receivable	4,415
Total Current Assets	2,245,536

**PROPERTY AND EQUIPMENT**

Land	771,200
Building and Improvements	6,004,048
Leasehold Improvements	190,653
Furniture and Equipment	657,522
Books and Educational Materials	711,430
Computer Software and Equipment	409,901
Total, at Cost	8,744,754
Less: Accumulated Depreciation	1,549,958
Total Furniture and Equipment	7,194,796

**OTHER ASSETS**

Security Deposit	938,548
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Total Assets	\$ 10,378,880
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**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts Payable - Trade	\$ 372,702
Current Portion of Notes Payable	127,739
Current Portion of Notes Payable - Related Party	54,799
Accrued Liabilities	234,805
Total Current Liabilities	790,045

**LONG-TERM LIABILITIES**

Notes Payable, Net of Current Portion	3,496,249
Notes Payable, Net of Current Portion - Related Party	1,925,535
Total Long-Term Liabilities	5,421,784
Total Liabilities	6,211,829

**NET ASSETS**

Unrestricted	4,155,173
Temporarily Restricted	11,878
Total Net Assets	4,167,051

Total Liabilities and Net Assets	\$ 10,378,880
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See accompanying Notes to Financial Statements.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND CONTRIBUTED SUPPORT</b>			
<b>REVENUE</b>			
Contributions and Donations	\$ 193,495	\$ -	\$ 193,495
Grant Revenue	4,098,896	6,157	4,105,053
Operator Revenue	9,768,112	-	9,768,112
In-Kind Revenue	3,562,100	-	3,562,100
Other Revenue	19,869	-	19,869
Total Revenue	17,642,472	6,157	17,648,629
Net Assets Released from Restrictions	-	-	-
Total Revenue and Support	17,642,472	6,157	17,648,629
<b>EXPENSES</b>			
Program Services	13,193,677	-	13,193,677
Supporting Services:			
General and Administrative	4,958,767	-	4,958,767
Total Expenses	18,152,444	-	18,152,444
<b>CHANGE IN NET ASSETS</b>	(509,972)	6,157	(503,815)
Net Assets - Beginning of Year	4,665,145	5,721	4,670,866
<b>NET ASSETS - END OF YEAR</b>	\$ 4,155,173	\$ 11,878	\$ 4,167,051

See accompanying Notes to Financial Statements.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2018**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
	<u>Academics</u>	<u>Management and General</u>	<u>Expenses</u>
Salaries and Benefits	\$ 6,886,629	\$ 1,780,475	\$ 8,667,104
Professional Services	105,582	305,005	410,587
Information Technology	265,624	2,127,401	2,393,025
Legal and Accounting	-	137,971	137,971
Professional Development	4,126	16,465	20,591
Cleaning Services	140,682	-	140,682
Security Services	43,746	-	43,746
Utilities	269,005	51,508	320,513
Materials and Supplies	336,835	105,839	442,674
Nutritional Support	277,608	264	277,872
Sales, Marketing, and Community Relations	39,170	-	39,170
Program Transportation Services	192,995	-	192,995
Travel and Entertainment	-	82,630	82,630
Interest Expense	-	236,052	236,052
Rent and Facilities	283,994	-	283,994
Depreciation and Amortization	639,594	-	639,594
Insurance	-	114,137	114,137
In-Kind Support	3,562,100	-	3,562,100
Repairs and Maintenance	145,987	-	145,987
Miscellaneous	-	1,020	1,020
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 13,193,677</u>	<u>\$ 4,958,767</u>	<u>\$ 18,152,444</u>

See accompanying Notes to Financial Statements.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ (503,815)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	578,142
Amortization of Security Deposit	61,452
Changes in Operating Assets and Liabilities:	
Grants Receivable	(669,175)
Related Party Receivable	58,260
Related Party Loan Receivable	20,924
Prepaid Assets	69,779
Accounts Payable - Trade	(17,903)
Accounts Payable - Related Party	(39,445)
Accrued Liabilities	37,797
Net Cash Used by Operating Activities	<u>(403,984)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of Property and Equipment	(294,943)
Net Cash Used by Investing Activities	<u>(294,943)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal Payments on Long-Term Debt	(129,157)
Principal Payments on Long-Term Debt - Affiliate	(52,653)
Net Cash Used by Financing Activities	<u>(181,810)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(880,737)
Cash and Cash Equivalents - Beginning of Year	<u>1,774,545</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 893,808</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>	
Interest Paid	<u>\$ 236,052</u>

See accompanying Notes to Financial Statements.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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. The PLA instructional model is evidence-based, designed by highly successful educators, and focuses on instruction that is personalized and data-driven. The model utilizes best practices including daily differentiated, data-driven instruction and intervention; frequent assessments, and regular progress feedback. This creates a uniquely rigorous and personalized learning experience for every child. At PLA, scholars have a safe and caring learning environment. Educators experience continued professional development and growth opportunities to best meet their scholars' needs. Scholars grow socially, emotionally, and physically through art, music, physical fitness, college- and career-focused visits, scholar-led community service projects, and more. 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, new charter schools are opened and operated under a charter created, activated, and owned by PLA. Our approach builds on the success of Founder and CEO Earl Martin Phalen's 25-year pioneering track record in education.

PLA's first school, the George and Veronica Phalen Leadership Academy (GVPLA), opened in 2013. 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 helps to transform chronically low-performing public schools into the high quality schools children need and deserve. PLA started turnaround work when it partnered with Indianapolis Public School (IPS) to operate PLA 103, an Innovation Network School.

Building on the successes GVPLA and PLA 103, PLA has 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. PLA 93 has also been successfully transformed into an A-rated school.

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 PLA 93 are captured as Operator Revenue in the statement of activities. PLA also recognizes in-kind revenue and expense for services provided directly to the schools including transportation, building use, and other services (see Note 9).

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The CMO

PLA utilizes the Central Management Office (CMO) to expand its turnaround model to help more children attending chronically low-performing schools excel. The CMO provides crucial support to partner schools to ensure school leadership can focus fully on high-quality education. Functional areas of support include: Human resources, Financial management, Facilities, Food services, Performance management, Policy development, Legal counsel, Grants management, On-site quality assurance monitoring and support.

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.

PLA maintains management agreements with the Thea Bowman Leadership Academy (TBLA) to manage two schools in Gary, Indiana; Timothy L. Johnson Academy (TLJ) in Fort Wayne, Indiana; and the Michigan Educational Choice Center (MECC) in Detroit, Michigan. In 2018, PLA entered into management agreements with Higher Institute of Arts & Tech in Merrillville, Indiana and three Hillsborough County Public Schools in Tampa, Florida. These include Foster, Oak Park, and Sheehy elementary schools.

Management fees received under these CMO agreements are recorded as Operator Revenue in the statement of activities.

Under these models, PLA is serving over 5,000 students across Indianapolis, Fort Wayne, and Gary, Indiana; Detroit, Michigan; and Tampa, Florida. Our ultimate goal is that scholars gain academic mastery, 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.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

PLA considers all demand accounts to be cash.

**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 lease 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, 2018**

**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 2018, 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, 2018.

**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, unconditional promises 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.

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.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Support and Revenue (Continued)**

*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.

*In-Kind Support* – Contributions of services received are recognized if the services (a) create or enhance nonfinancial assets of (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

**Advertising**

PLA expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2018 totaled \$38,881.

**Income Taxes**

PLA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation. Currently, PLA has no obligation for any unrelated business income tax.

**Subsequent Events**

Management evaluated subsequent events through January 9, 2019, 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, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 NOTES PAYABLE**

PLA notes payable consists of the following at June 31, 2018:

<u>Description</u>	<u>Amount</u>
6.375% note payable, principal and unpaid accrued interest due at April 1, 2021, secured by the property located at 2323 North Illinois Street, Indianapolis, Indiana 46208. Subordinated.	\$ 809,779
3.27% note payable at the federal tax exempt rate, principal and unpaid accrued interest due at March 1, 2041, secured by the property located at 2323 North Illinois Street, Indianapolis, Indiana 46208.	<u>2,814,209</u>
Total	3,623,988
Less: Current Portion	<u>127,739</u>
Notes Payable Less Current Portion	<u><u>\$ 3,496,249</u></u>

PLA is subject to loan covenants associated with the note payable at 3.27%. As of June 30, 2018, management believes it is in compliance with these covenants.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 182,538
2020	190,196
2021	870,976
2022	155,398
2023	161,066
Thereafter	<u>4,044,154</u>
Total	<u><u>\$ 5,604,328</u></u>

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 3 SUMMARY OF GRANTS/CONTRACTS REVENUE**

PLA received revenue through the following grants and contracts for the period July 1, 2017 to June 30, 2018.

Funding Source	CFDA #	Grant Contract Number	Grant Contract Period	Total Grant	Recognized Support
Grant Revenue					
Federal					
Department of Agriculture	10.555		Reimbursement	\$ 209,533	\$ 209,533
Corporation for National and Community Service	94.006		Reimbursement	2,196	2,196
Department of Education	84.010	18-9925	Reimbursement	545,540	545,540
Department of Education	84.027	26211780	Reimbursement	54,653	52,069
Department of Education	84.424	24478	11/16/17 - 9/30/19	100,000	20,500
Department of Education	84.367	S367A170013	8/31/17 - 9/30/19	84,049	84,049
Department of Education	84.282	U282A170017	3/1/18-11/30/19	900,000	63,188
Total Federal Government				<u>1,895,971</u>	<u>977,075</u>
Foundation and Corporate					
Indiana Department of Education		N/A	7/1/17 - 6/30/18	2,914,640	2,914,640
Indianapolis Public Schools		N/A	7/1/17 - 6/30/18	4,530	4,530
Charter Schools Development Corporation		N/A	7/1/17 - 6/30/18	196,250	196,250
Miscellaneous Grants and Contracts		N/A	N/A	-	12,558
Total Foundation and Corporate				<u>3,115,420</u>	<u>3,127,978</u>
Total Grant Revenue				<u>5,011,391</u>	<u>4,105,053</u>
Operator Revenue					
Indianapolis Public Schools		N/A	7/1/17 - 6/30/18	11,398,976	11,398,976
Managed Schools		N/A	7/1/17 - 6/30/18	1,931,236	1,931,236
Total Contract Revenue				<u>13,330,212</u>	<u>13,330,212</u>
Total Grants and Contracts				<u>\$ 18,341,603</u>	<u>\$ 17,435,265</u>

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 CONCENTRATION OF CREDIT RISK**

PLA maintains its cash in bank accounts at a single financial institution. At June 30, 2018, balances in PLA's deposit accounts were insured by the FDIC up to \$250,000 per depositor bank. As of June 30, 2018 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, 2018.

PLA receives operating funds from the Indiana Department of Education which amounted to 21% of the total revenue and contributed support for the year ended June 30, 2018, 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. Rent expense for the year ended June 30, 2018 was \$252,637.

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 nonrefundable. Amortization of the deposit for the year ended June 30, 2018 was \$61,452.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 LEASES (CONTINUED)**

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 307,288
2020	310,361
2021	313,464
2022	316,599
2023	319,765
Thereafter	3,025,686
Total	<u>\$ 4,593,163</u>

**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, 2018 were \$313,658.

**NOTE 7 RELATED PARTY TRANSACTIONS**

PLA is a wholly owned subsidiary of Entrepreneurial Ventures in Education, Inc. dba: 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 was due to be repaid in 18 monthly installments of \$10,462 plus interest at prime rate (3.50% at June 30, 2017). The loan matured as of August 2017.

PLA paid Summer Advantage approximately \$2,096,000 in the year ended June 30, 2018, for reimbursement of management related functions. Amounts due to Summer Advantage at June 30, 2018 was \$36,877.

PLA and TLJ, TBLA, and MECC are considered to be entities under common control by virtue of common board members. As of June 30, 2018, PLA had receivables from TLJ, MECC, and TBLA of \$61,311, \$344,355, and \$32,924, respectively.

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%. For the year ended June 30, 2018, principal payments of \$119,666 were made.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)**

Related party notes payable consist of the following at June 31, 2018:

<u>Description</u>	<u>Amount</u>
4% note payable, principal and unpaid accrued interest due at April 1, 2041, secured by the property located at 2323 North Illinois Street, Indianapolis, Indiana 46208. Subordinated.	\$ 1,980,334
Less: Current Portion	<u>54,799</u>
Related Party Notes Payable Less Current Portion	<u><u>\$ 1,925,535</u></u>

**NOTE 8 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets of \$11,878 at June 30, 2018 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 ended June 30, 2018, no temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions.

**NOTE 9 DONATED PROFESSIONAL SERVICES AND MATERIALS**

IPS contributes significant amounts of resources to the School's program services at PLA 103 and PLA 93. In-kind contributions for the year ended June 30, 2018 were as follows: building and facilities usage, utilities and building maintenance, security, SPED personnel, other personnel, transportation, and food service were recognized in the amount of \$3,562,100 for the period.

PLA 103 and 93 received donated professional services and materials as follows for the year ended June 30, 2018:

	<u>PLA 103</u>	<u>PLA 93</u>	<u>Total</u>
Building and Facilities Usage	\$ 796,300	\$ 695,000	\$ 1,491,300
Utilities and Building Maintenance	118,600	245,600	364,200
Security	51,800	45,200	97,000
SPED Personnel	188,100	169,900	358,000
Other Personnel	-	94,800	94,800
Transportation	103,500	247,500	351,000
Food Service	416,800	389,000	805,800
Total	<u><u>\$ 1,675,100</u></u>	<u><u>\$ 1,887,000</u></u>	<u><u>\$ 3,562,100</u></u>

## **SUPPLEMENTARY INFORMATION**

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**SCHEDULE OF FINANCIAL POSITION BY SCHOOL**  
**JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

ASSETS	GVPLA	PLA 103	PLA 93	CMO	JRPLA	Eliminations	Total
<b>CURRENT ASSETS</b>							
Cash and Cash Equivalents	\$ 281,945	\$ 505,923	\$ 89,854	\$ -	\$ 16,086	\$ -	\$ 893,808
Grants Receivable	155,864	180,517	450,193	438,590	122,149	-	1,347,313
Related Party Accounts Receivable	16,932	1,398,632	565,621	8,406	-	(1,985,176)	4,415
Related Party Loan Receivable	-	-	-	-	-	-	-
Prepaid Assets	-	-	-	-	-	-	-
Total Current Assets	<u>454,741</u>	<u>2,085,072</u>	<u>1,105,668</u>	<u>446,996</u>	<u>138,235</u>	<u>(1,985,176)</u>	<u>2,245,536</u>
<b>PROPERTY AND EQUIPMENT</b>							
Land	771,200	-	-	-	-	-	771,200
Building and Improvements	6,004,048	-	-	-	-	-	6,004,048
Leasehold Improvements	10,657	-	108,213	-	71,783	-	190,653
Furniture and Equipment	409,997	206,824	-	-	40,701	-	657,522
Books and Educational Materials	150,463	355,944	201,804	-	3,219	-	711,430
Computer Software	49,977	-	4,200	-	38,100	-	92,277
Computer Equipment	136,828	86,625	18,549	-	75,622	-	317,624
Total, at Cost	<u>7,533,170</u>	<u>649,393</u>	<u>332,766</u>	<u>-</u>	<u>229,425</u>	<u>-</u>	<u>8,744,754</u>
Less: Accumulated Depreciation	<u>1,102,950</u>	<u>324,285</u>	<u>86,454</u>	<u>-</u>	<u>36,269</u>	<u>-</u>	<u>1,549,958</u>
Total Furniture and Equipment	<u>6,430,220</u>	<u>325,108</u>	<u>246,312</u>	<u>-</u>	<u>193,156</u>	<u>-</u>	<u>7,194,796</u>
<b>OTHER ASSETS</b>							
Security Deposit	-	-	-	-	938,548	-	938,548
Total Assets	<u>\$ 6,884,961</u>	<u>\$ 2,410,180</u>	<u>\$ 1,351,980</u>	<u>\$ 446,996</u>	<u>\$ 1,269,939</u>	<u>\$ (1,985,176)</u>	<u>\$ 10,378,880</u>
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES</b>							
Accounts Payable	\$ 161,471	\$ 18,079	\$ 3,488	\$ 56,624	\$ 133,040	\$ -	\$ 372,702
Related Party Payables	1,401	1,401	1,401	-	1,980,973	(1,985,176)	-
Current Portion of Notes Payable	127,739	-	-	-	-	-	127,739
Current Portion of Notes Payable - Affiliate	54,799	-	-	-	-	-	54,799
Accrued Liabilities	58,542	90,702	52,437	-	33,124	-	234,805
Total Current Liabilities	<u>403,952</u>	<u>110,182</u>	<u>57,326</u>	<u>56,624</u>	<u>2,147,137</u>	<u>(1,985,176)</u>	<u>790,045</u>
<b>LONG-TERM LIABILITIES</b>							
Notes Payable, Net of Current Portion	3,496,249	-	-	-	-	-	3,496,249
Notes Payable, Net of Current Portion - Affiliate	1,925,535	-	-	-	-	-	1,925,535
Total Long-Term Liabilities	<u>5,421,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,421,784</u>
Total Liabilities	<u>5,825,736</u>	<u>110,182</u>	<u>57,326</u>	<u>56,624</u>	<u>2,147,137</u>	<u>(1,985,176)</u>	<u>6,211,829</u>
<b>NET ASSETS</b>							
Unrestricted	1,047,347	2,299,998	1,294,654	390,372	(877,198)	-	4,155,173
Temporarily Restricted	11,878	-	-	-	-	-	11,878
Total Net Assets	<u>1,059,225</u>	<u>2,299,998</u>	<u>1,294,654</u>	<u>390,372</u>	<u>(877,198)</u>	<u>-</u>	<u>4,167,051</u>
Total Liabilities and Net Assets	<u>\$ 6,884,961</u>	<u>\$ 2,410,180</u>	<u>\$ 1,351,980</u>	<u>\$ 446,996</u>	<u>\$ 1,269,939</u>	<u>\$ (1,985,176)</u>	<u>\$ 10,378,880</u>

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**SCHEDULE OF ACTIVITIES BY SCHOOL**  
**YEAR ENDED JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	GVPLA			PLA 103			PLA93		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND CONTRIBUTED SUPPORT</b>									
<b>REVENUE</b>									
Contributions and Donations	\$ 145,823	\$ -	\$ 145,823	\$ 2,672	\$ -	\$ 2,672	\$ -	\$ -	\$ -
Grant Revenue	2,853,226	6,157	2,859,383	8,433	-	8,433	-	-	-
Operator Revenue	-	-	-	4,288,649	-	4,288,649	3,548,227	-	3,548,227
In-Kind Contributions	-	-	-	1,675,100	-	1,675,100	1,887,000	-	1,887,000
Other Revenue	16,292	-	16,292	-	-	-	-	-	-
Total Revenue	<u>3,015,341</u>	<u>6,157</u>	<u>3,021,498</u>	<u>5,974,854</u>	<u>-</u>	<u>5,974,854</u>	<u>5,435,227</u>	<u>-</u>	<u>5,435,227</u>
Net Assets Released from Restrictions	-	-	-	-	-	-	-	-	-
Total Revenue and Support	<u>3,015,341</u>	<u>6,157</u>	<u>3,021,498</u>	<u>5,974,854</u>	<u>-</u>	<u>5,974,854</u>	<u>5,435,227</u>	<u>-</u>	<u>5,435,227</u>
<b>EXPENSES</b>									
Program Services	2,701,939	-	2,701,939	4,448,748	-	4,448,748	3,916,372	-	3,916,372
Supporting Services:									
General and Administrative	767,095	-	767,095	1,171,863	-	1,171,863	972,955	-	972,955
Total Expenses	<u>3,469,034</u>	<u>-</u>	<u>3,469,034</u>	<u>5,620,611</u>	<u>-</u>	<u>5,620,611</u>	<u>4,889,327</u>	<u>-</u>	<u>4,889,327</u>
<b>CHANGE IN NET ASSETS</b>	(453,693)	6,157	(447,536)	354,243	-	354,243	545,900	-	545,900
Net Assets - Beginning 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>713,759</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,047,347</u>	<u>\$ 11,878</u>	<u>\$ 1,059,225</u>	<u>\$ 2,299,998</u>	<u>\$ -</u>	<u>\$ 2,299,998</u>	<u>\$ 1,294,654</u>	<u>\$ -</u>	<u>\$ 1,259,659</u>

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**SCHEDULE OF ACTIVITIES BY SCHOOL (CONTINUED)**  
**YEAR ENDED JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	CMO			JRPLA			Total		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND CONTRIBUTED SUPPORT</b>									
<b>REVENUE</b>									
Contributions and Donations	\$ -	\$ -	\$ -	\$ 45,000	\$ -	\$ 45,000	\$ 193,495	\$ -	\$ 193,495
Grant Revenue	-	-	-	1,237,237	-	1,237,237	4,098,896	6,157	4,105,053
Operator Revenue	1,931,236	-	1,931,236	-	-	-	9,768,112	-	9,768,112
In-Kind Contributions	-	-	-	-	-	-	3,562,100	-	3,562,100
Other Revenue	-	-	-	3,577	-	3,577	19,869	-	19,869
Total Revenue	1,931,236	-	1,931,236	1,285,814	-	1,285,814	17,642,472	6,157	17,648,629
Net Assets Released from Restrictions	-	-	-	-	-	-	-	-	-
Total Revenue and Support	1,931,236	-	1,931,236	1,285,814	-	1,285,814	17,642,472	6,157	17,648,629
<b>EXPENSES</b>									
Program Services	7,385	-	7,385	2,119,233	-	2,119,233	13,193,677	-	13,193,677
Supporting Services:									
General and Administrative	1,507,700	-	1,507,700	539,154	-	539,154	4,958,767	-	4,958,767
Total Expenses	1,515,085	-	1,515,085	2,658,387	-	2,658,387	18,152,444	-	18,152,444
<b>CHANGE IN NET ASSETS</b>	416,151	-	416,151	(1,372,573)	-	(1,372,573)	(509,972)	6,157	(503,815)
Net Assets - Beginning of Year	(25,779)	-	(25,779)	495,375	-	495,375	4,665,145	5,721	4,670,866
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 390,372</u>	<u>\$ -</u>	<u>\$ 390,372</u>	<u>\$ (877,198)</u>	<u>\$ -</u>	<u>\$ (877,198)</u>	<u>\$ 4,155,173</u>	<u>\$ 11,878</u>	<u>\$ 4,167,051</u>

**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, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2019.

**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 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 2018-01.

**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*.

**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  
January 9, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

We have audited The Phalen Leadership Academy – Indiana, Inc.'s (PLA) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of PLA's major federal programs for the year ended June 30, 2018. PLA's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the PLA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the PLA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the PLA's compliance.

***Opinion on Each Major Federal Program***

In our opinion, PLA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of PLA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PLA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PLA's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Indianapolis, Indiana  
January 9, 2019

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Department of Agriculture Direct Programs</b>			
Child Nutrition Cluster - National School Lunch Program	10.555		\$ 209,533
Total Department of Agriculture Direct Programs			<u>209,533</u>
<b>Corporation for National and Community Service</b>			
Special Education Grants to States	94.006		2,196
Total Corporation for National and Community Service Programs			<u>2,196</u>
<b>American Recovery and Reinvestment Act of 2009</b>			
Department of Education Direct Programs			
Special Education Cluster - Special Education Grants to States	84.027		52,069
Total American Recovery and Reinvestment Act of 2009 Programs			<u>52,069</u>
<b>Department of Education Direct Programs</b>			
Title I Grants to Local Educational Agencies	84.010	S010A17014	545,540
Title IV Student Support and Academic Enrichment Program	84.424A		20,500
Title II Improving Teacher Quality State Grants	84.367		84,049
Charter School Program	84.282	U282A170017	63,188
Total Department of Education			<u>713,277</u>
Total Expenditures of Federal Awards			<u><u>\$ 977,075</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Phalen Leadership Academy – Indiana, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of The Phalen Leadership Academy – Indiana, Inc., it is not intended to and does not present the financial position of The Phalen Leadership Academy – Indiana, Inc.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or a limited as to reimbursement.

The District has elected not to use the 10 percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

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**Section I – Summary of Auditors' Results**

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**Financial Statements**

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified?     x     yes            no
  - Significant deficiency(ies) identified?            yes     x     none reported
3. Noncompliance material to financial statements noted?            yes     x     no

**Federal Awards**

1. Internal control over major federal programs:
- Material weakness(es) identified?            yes     x     no
  - Significant deficiency(ies) identified?            yes     x     none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?            yes     x     no

**Identification of Major Federal Programs**

**CFDA Number(s)**

84.010

**Name of Federal Program or Cluster**

Title I, Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

           yes     x     no

**THE PHALEN LEADERSHIP ACADEMY - INDIANA, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

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***Section II – Financial Statement Findings***

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**2018 – 01**

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

**Condition:** Material adjusting entries were identified during the conduct of the audit to properly state the following accounts in the financial statements: security deposit, security deposit amortization, and in-kind revenue and related expenses.

**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 FY2019.