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June 1, 2020

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, 2018 to June 30, 2019. 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, 2019 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 page 31. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's Corrective Action Plan immediately follows page 31.

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, 2019

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
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**THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
OTHER REPORTS
YEAR ENDED JUNE 30, 2019**

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 Phalen Leadership Academy – Indiana, Inc. (PLA), which comprise the statement of financial position as of June 30, 2019, 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, 2019, 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.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 to the financial statements, Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, was adopted by PLA. The update includes additional disclosures regarding the liquidity of the organization and requires a statement of functional expenses.

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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 5, 2020, 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Indianapolis, Indiana
February 5, 2020

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,506,783
Grants Receivable	585,680
Related Party Accounts Receivable	401,448
Prepaid Assets	4,673
Total Current Assets	4,498,584

PROPERTY AND EQUIPMENT

Land	771,200
Building and Improvements	6,004,048
Leasehold Improvements	243,722
Furniture and Equipment	751,271
Books and Educational Materials	753,424
Computer Software and Equipment	630,846
Total, at Cost	9,154,511
Less: Accumulated Depreciation	2,169,787
Total Furniture and Equipment	6,984,724

OTHER ASSETS

Security Deposit	871,504
Total Assets	\$ 12,354,812

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 253,351
Related Party Payables	18,168
Current Portion of Notes Payable	145,770
Current Portion of Notes Payable - Affiliate	57,032
Accrued Liabilities	157,276
Total Current Liabilities	631,597

LONG-TERM LIABILITIES

Notes Payable, Net of Current Portion	3,370,604
Notes Payable, Net of Current Portion - Affiliate	1,868,503
Total Long-Term Liabilities	5,239,107
Total Liabilities	5,870,704

NET ASSETS

Without Donor Restrictions:	
Undesignated	3,603,058
With Donor Restrictions:	
Purpose Restrictions	2,881,050
Total With Donor Restrictions	2,881,050
Total Net Assets	6,484,108
Total Liabilities and Net Assets	\$ 12,354,812

See accompanying Notes to Financial Statements.

**THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND CONTRIBUTED SUPPORT:			
REVENUE			
Contributions and Donations	\$ 5,360	\$ -	\$ 5,360
Grant Revenue	5,963,773	2,881,050	8,844,823
Operator Revenue	9,023,926	-	9,023,926
In-Kind Revenue	4,911,091	-	4,911,091
Other Revenue	26,703	-	26,703
Total Revenue	19,930,853	2,881,050	22,811,903
Net Assets Released from Restrictions	11,878	(11,878)	-
Total Revenue and Support	19,942,731	2,869,172	22,811,903
EXPENSES			
Program Services	15,265,759	-	15,265,759
Supporting Services:			
General and Administrative	5,229,087	-	5,229,087
Total Expenses	20,494,846	-	20,494,846
CHANGE IN NET ASSETS	(552,115)	2,869,172	2,317,057
Net Assets - Beginning of Year	4,155,173	11,878	4,167,051
NET ASSETS - END OF YEAR	\$ 3,603,058	\$ 2,881,050	\$ 6,484,108

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services	
	Academics	Management and General	Total Expenses
Salaries and Benefits	\$ 7,171,729	\$ 1,945,991	\$ 9,117,720
Professional Services	1,460,390	271,454	1,731,844
Information Technology	816,141	2,228,007	3,044,148
Legal and Accounting	-	189,711	189,711
Professional Development	13,485	16,720	30,205
Cleaning Services	43,979	-	43,979
Security Services	133,292	-	133,292
Utilities	273,474	34,554	308,028
Materials and Supplies	607,459	61,027	668,486
Nutritional Support	1,214,458	2,589	1,217,047
Sales, Marketing, and Community Relations	26,026	27,126	53,152
Program Transportation Services	735,356	-	735,356
Travel and Entertainment	-	41,453	41,453
Interest Expense	-	244,818	244,818
Rent and Facilities	2,067,437	-	2,067,437
Depreciation and Amortization	686,868	-	686,868
Insurance	-	164,289	164,289
Repairs and Maintenance	15,665	-	15,665
Miscellaneous	-	1,348	1,348
	<u> -</u>	<u> 1,348</u>	<u> 1,348</u>
Total	<u>\$ 15,265,759</u>	<u>\$ 5,229,087</u>	<u>\$ 20,494,846</u>

See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 2,317,057
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	619,824
Amortization of Security Deposit	67,044
Changes in Operating Assets and Liabilities:	
Grants Receivable	761,633
Related Party Accounts Receivable	(397,033)
Prepaid Assets	(4,673)
Accounts Payable - Trade	(119,351)
Accounts Payable - Related Party	18,168
Accrued Liabilities	(77,529)
Net Cash Provided by Operating Activities	3,185,140

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	(409,752)
Net Cash Used by Investing Activities	(409,752)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal Payments on Long-Term Debt	(107,614)
Principal Payments on Long-Term Debt - Affiliate	(54,799)
Net Cash Used by Financing Activities	(162,413)

NET INCREASE IN CASH AND CASH EQUIVALENTS

2,612,975

Cash and Cash Equivalents - Beginning of Year

893,808

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 3,506,783

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Interest Paid	\$ 249,305
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See accompanying Notes to Financial Statements.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019

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 (HIAT) 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.

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and available resources, and the lack of consistency in the type of information provided about expenses. PLA has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

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, 2019

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 to 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 Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as Net Assets Released from Restrictions.

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, net assets with donor restriction are reclassified to net assets without donor restriction 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.

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.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue (Continued)

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, 2019 totaled \$27,126.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited using a direct expense allocation method.

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 February 5, 2020, the date the financial statements were available to be issued. Management has determined that no subsequent events exist.

New Accounting Standards

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. 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, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

Contributions Received

In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The guidance distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. The guidance also assists in determining whether a contribution is conditional or unconditional and, if unconditional, whether the transactions are donor restricted for a limited purpose or timing. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for annual periods beginning after December 15, 2018. Early adoption is permitted. 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, 2020. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

NOTE 2 LIQUIDITY AND AVAILABILITY

PLA has \$4,493,911 of financial assets available within one year of the statement of financial position date consisting of cash, grants receivable, and related party accounts receivable, of which \$2,881,050 is subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the financial statement date. PLA does not currently have any liquidity management policies in place.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 NOTES PAYABLE

PLA notes payable consists of the following at June 30, 2019:

<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.	\$ 770,508
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>2,745,866</u>
Total	3,516,374
Less: Current Portion	<u>145,770</u>
Notes Payable Less Current Portion	<u>\$ 3,370,604</u>

PLA is subject to financial reporting loan covenants associated with the above notes payable. As of June 30, 2019, management is not in compliance with these covenants. PLA has received waivers regarding these covenants from the lenders.

Future maturities of all notes payable, including related party notes payable (see Note 9), are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 202,802
2021	870,730
2022	155,143
2023	160,803
2024	166,460
Thereafter	<u>3,885,971</u>
Total	<u>\$ 5,441,909</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 SUMMARY OF GRANTS/CONTRACTS REVENUE

PLA received revenue through the following grants and contracts for the period July 1, 2018 to June 30, 2019.

Funding Source	CFDA #	Grant Contract Number	Grant Contract Period	Total Grant	Recognized Support
Grant Revenue					
Federal					
Department of Agriculture	10.555	N/A	7/1/18 - 6/30/19	\$ 322,929	\$ 322,929
Department of Education	84.010	A18-8-180T	7/1/17 - 9/30/19	419,619	419,619
Department of Education	84.027	18611-572-PN01	7/1/17 - 9/30/19	47,515	47,515
Department of Education	84.424	S424A170015	7/1/17 - 9/30/19	84,829	84,829
Department of Education	84.367	S367A180013	8/31/17 - 9/30/19	8,677	8,677
Department of Education	84.282	A58-8-180T-5345	7/1/18 - 9/30/19	<u>236,865</u>	<u>236,865</u>
Total Federal Government				<u>1,120,434</u>	<u>1,120,434</u>
Foundation and Corporate					
Indiana Department of Education		N/A	7/1/18 - 6/30/19	3,637,098	3,637,098
New School Venture Fund		N/A	7/1/18 - 6/30/19	285,000	285,000
Charter Schools Development Corporation		N/A	7/1/18 - 6/30/19	112,500	112,500
Glick Family Foundation		N/A	7/1/18 - 6/30/19	250,000	250,000
Mind Trust		N/A	7/1/18 - 6/30/19	250,000	250,000
Lilly Endowment Foundation		N/A	7/1/18 - 6/30/19	3,045,350	3,045,350
Herbert Simon Family Foundation		N/A	N/A	379,000	114,000
Miscellaneous Grants and Contracts		N/A	N/A	<u>30,441</u>	<u>30,441</u>
Total Foundation and Corporate				<u>7,989,389</u>	<u>7,724,389</u>
Total Grant Revenue				<u>9,109,823</u>	<u>8,844,823</u>
Operator Revenue					
Indianapolis Public Schools		N/A	7/1/18 - 6/30/19	12,520,669	12,520,669
Managed Schools		N/A	7/1/18 - 6/30/19	<u>1,414,348</u>	<u>1,414,348</u>
Total Contract Revenue				<u>13,935,017</u>	<u>13,935,017</u>
Total Grants and Contracts				<u>\$ 23,044,840</u>	<u>\$ 22,779,840</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 CONCENTRATION OF CREDIT RISK

PLA maintains its cash in bank accounts at a single financial institution. At June 30, 2019, balances in PLA's deposit accounts were insured by the FDIC up to \$250,000 per depositor bank. As of June 30, 2019 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, 2019.

PLA receives operating funds from the Indiana Department of Education which amounted to 19% of the total revenue and contributed support for the year ended June 30, 2019. 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 6 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, 2019 was \$365,190.

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 toward 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, 2019 was \$67,044.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 LEASES (CONTINUED)

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

<u>Year Ending June 30.</u>	<u>Amount</u>
2020	\$ 310,361
2021	313,464
2022	316,599
2023	319,765
2024	322,963
Thereafter	<u>2,702,723</u>
Total	<u><u>\$ 4,285,875</u></u>

NOTE 7 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, 2019 were \$324,288.

NOTE 8 PENSION PLANS

PLA elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS includes both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). PERF is a defined benefit pension plan. PERF is a cost sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. TRF is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. PLA contributes 7.5% of the annual covered salary of employees. PLA is required to contribute an actuarially determined rate determined annually for PERF and TRF. Retirement plan expense for PERF and TRF was \$126,352 for the year ended June 30, 2019.

NOTE 9 RELATED PARTY TRANSACTIONS

PLA paid Summer Advantage approximately \$2,074,000 in the year ended June 30, 2019, for reimbursement of management related functions. Amounts due from Summer Advantage at June 30, 2019 were \$197,194.

PLA and TLJ, MECC, TBLA, and HIAT are considered to be entities under common control by virtue of common board members. As of June 30, 2019, PLA had receivables from TLJ, MECC, TBLA, and HIAT of \$22,805, \$833, \$179,196, and \$1,420, respectively. For the year ended June 30, 2019, PLA had revenues from TLJ and TBLA of \$330,405 and \$1,083,942, respectively.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2019, principal payments of \$54,799 were made.

Related party notes payable consist of the following at June 31, 2019:

<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.	\$ 1,925,535
Less: Current Portion	<u>57,032</u>
Related Party Notes Payable Less Current Portion	<u><u>\$ 1,868,503</u></u>

NOTE 10 NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction of \$2,881,050 at June 30, 2019 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, 2019, \$11,878 of net assets with donor restriction were released from donor restrictions by incurring expenses satisfying the purpose of the agreement.

NOTE 11 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, 2019 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 \$4,911,091 for the period. The expenses are included in their natural classification on the statement of functional expenses.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 11 DONATED PROFESSIONAL SERVICES AND MATERIALS (CONTINUED)

PLA 103 and 93 received donated professional services and materials as follows for the year ended June 30, 2019:

	<u>PLA 103</u>	<u>PLA 93</u>	<u>Total</u>
Building and Facilities Usage	\$ 862,870	\$ 808,820	\$ 1,671,690
Utilities and Building Maintenance	140,509	257,681	398,190
Security	51,366	48,148	99,514
SPED Personnel	207,303	142,549	349,852
Other Personnel	664,180	550,285	1,214,465
Transportation	130,080	212,252	342,332
Food Service	422,160	412,888	835,048
Total	<u>\$ 2,478,468</u>	<u>\$ 2,432,623</u>	<u>\$ 4,911,091</u>

SUPPLEMENTARY INFORMATION

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF FINANCIAL POSITION BY SCHOOL
JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	GVPLA	PLA 103	PLA 93	CMO	JRPLA	Eliminations	Total
CURRENT ASSETS							
Cash and Cash Equivalents	\$ 3,094,699	\$ 107,721	\$ 141,002	\$ 71,888	\$ 91,473	\$ -	\$ 3,506,783
Grants Receivable	85,429	211,296	238,629	-	50,326	-	585,680
Related Party Accounts Receivable	2,253	2,651,923	1,337,510	202,001	3,040,625	(6,832,864)	401,448
Prepaid Assets	4,673	-	-	-	-	-	4,673
Total Current Assets	<u>3,187,054</u>	<u>2,970,940</u>	<u>1,717,141</u>	<u>273,889</u>	<u>3,182,424</u>	<u>(6,832,864)</u>	<u>4,498,584</u>
PROPERTY AND EQUIPMENT							
Land	771,200	-	-	-	-	-	771,200
Building and Improvements	6,004,048	-	-	-	-	-	6,004,048
Leasehold Improvements	10,657	-	108,213	-	124,852	-	243,722
Furniture and Equipment	457,141	206,824	-	-	87,306	-	751,271
Books and Educational Materials	164,966	383,435	201,804	-	3,219	-	753,424
Computer Software	56,395	13,512	25,235	-	64,453	-	159,595
Computer Equipment	155,188	86,625	22,450	-	206,988	-	471,251
Total, at Cost	<u>7,619,595</u>	<u>690,396</u>	<u>357,702</u>	<u>-</u>	<u>486,818</u>	<u>-</u>	<u>9,154,511</u>
Less: Accumulated Depreciation	1,422,425	462,044	149,124	-	136,194	-	2,169,787
Total Furniture and Equipment	<u>6,197,170</u>	<u>228,352</u>	<u>208,578</u>	<u>-</u>	<u>350,624</u>	<u>-</u>	<u>6,984,724</u>
OTHER ASSETS							
Security Deposit	-	-	-	-	871,504	-	871,504
Total Assets	<u>\$ 9,384,224</u>	<u>\$ 3,199,292</u>	<u>\$ 1,925,719</u>	<u>\$ 273,889</u>	<u>\$ 4,404,552</u>	<u>\$ (6,832,864)</u>	<u>\$ 12,354,812</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts Payable	\$ 67,389	\$ 26,293	\$ 22,766	\$ 17,144	\$ 119,759	\$ -	\$ 253,351
Related Party Payables	3,418,442	-	120,089	-	3,312,501	(6,832,864)	18,168
Current Portion of Notes Payable	145,770	-	-	-	-	-	145,770
Current Portion of Notes Payable - Affiliate	57,032	-	-	-	-	-	57,032
Accrued Liabilities	28,532	38,842	40,912	-	48,990	-	157,276
Total Current Liabilities	<u>3,717,165</u>	<u>65,135</u>	<u>183,767</u>	<u>17,144</u>	<u>3,481,250</u>	<u>(6,832,864)</u>	<u>631,597</u>
LONG-TERM LIABILITIES							
Notes Payable, Net of Current Portion	3,370,604	-	-	-	-	-	3,370,604
Notes Payable, Net of Current Portion - Affiliate	1,868,503	-	-	-	-	-	1,868,503
Total Long-Term Liabilities	<u>5,239,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,239,107</u>
Total Liabilities	<u>8,956,272</u>	<u>65,135</u>	<u>183,767</u>	<u>17,144</u>	<u>3,481,250</u>	<u>(6,832,864)</u>	<u>5,870,704</u>
NET ASSETS							
Without Donor Restrictions	427,952	3,134,157	1,741,952	256,745	(1,957,748)	-	3,603,058
With Donor Restrictions	-	-	-	-	2,881,050	-	2,881,050
Total Net Assets	<u>427,952</u>	<u>3,134,157</u>	<u>1,741,952</u>	<u>256,745</u>	<u>923,302</u>	<u>-</u>	<u>6,484,108</u>
Total Liabilities and Net Assets	<u>\$ 9,384,224</u>	<u>\$ 3,199,292</u>	<u>\$ 1,925,719</u>	<u>\$ 273,889</u>	<u>\$ 4,404,552</u>	<u>\$ (6,832,864)</u>	<u>\$ 12,354,812</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF ACTIVITIES BY SCHOOL
YEAR ENDED JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	GVPLA			PLA 103			PLA93		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND CONTRIBUTED SUPPORT									
REVENUE									
Contributions and Donations	\$ 1,392	\$ -	\$ 1,392	\$ 2,468	\$ -	\$ 2,468	\$ -	\$ -	\$ -
Grant Revenue	2,450,189	-	2,450,189	-	-	-	250,000	-	250,000
Operator Revenue	-	-	-	4,364,162	-	4,364,162	3,245,416	-	3,245,416
In-Kind Contributions	-	-	-	2,478,468	-	2,478,468	2,432,623	-	2,432,623
Other Revenue	19,031	-	19,031	-	-	-	-	-	-
Total Revenue	2,470,612	-	2,470,612	6,845,098	-	6,845,098	5,928,039	-	5,928,039
Net Assets Released from Restrictions	11,878	(11,878)	-	-	-	-	-	-	-
Total Revenue and Support	2,482,490	(11,878)	2,470,612	6,845,098	-	6,845,098	5,928,039	-	5,928,039
EXPENSES									
Program Services	2,292,424	-	2,292,424	4,996,387	-	4,996,387	4,525,820	-	4,525,820
Supporting Services:									
General and Administrative	809,461	-	809,461	1,014,552	-	1,014,552	954,921	-	954,921
Total Expenses	3,101,885	-	3,101,885	6,010,939	-	6,010,939	5,480,741	-	5,480,741
CHANGE IN NET ASSETS	(619,395)	(11,878)	(631,273)	834,159	-	834,159	447,298	-	447,298
Net Assets - Beginning of Year	1,047,347	11,878	1,059,225	2,299,998	-	2,299,998	1,294,654	-	1,294,654
NET ASSETS - END OF YEAR	<u>\$ 427,952</u>	<u>\$ -</u>	<u>\$ 427,952</u>	<u>\$ 3,134,157</u>	<u>\$ -</u>	<u>\$ 3,134,157</u>	<u>\$ 1,741,952</u>	<u>\$ -</u>	<u>\$ 1,741,952</u>

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF ACTIVITIES BY SCHOOL (CONTINUED)
YEAR ENDED JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	CMO			JRPLA			Total		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND CONTRIBUTED SUPPORT									
REVENUE									
Contributions and Donations	\$ -	\$ -	\$ -	\$ 1,500	\$ -	\$ 1,500	\$ 5,360	\$ -	\$ 5,360
Grant Revenue	-	-	-	3,263,584	2,881,050	6,144,634	5,963,773	2,881,050	8,844,823
Operator Revenue	1,414,348	-	1,414,348	-	-	-	9,023,926	-	9,023,926
In-Kind Contributions	-	-	-	-	-	-	4,911,091	-	4,911,091
Other Revenue	-	-	-	7,672	-	7,672	26,703	-	26,703
Total Revenue	1,414,348	-	1,414,348	3,272,756	2,881,050	6,153,806	19,930,853	2,881,050	22,811,903
Net Assets Released from Restrictions	-	-	-	-	-	-	11,878	(11,878)	-
Total Revenue and Support	1,414,348	-	1,414,348	3,272,756	2,881,050	6,153,806	19,942,731	2,869,172	22,811,903
EXPENSES									
Program Services	2,802	-	2,802	3,448,326	-	3,448,326	15,265,759	-	15,265,759
Supporting Services:									
General and Administrative	1,545,173	-	1,545,173	904,980	-	904,980	5,229,087	-	5,229,087
Total Expenses	1,547,975	-	1,547,975	4,353,306	-	4,353,306	20,494,846	-	20,494,846
CHANGE IN NET ASSETS	(133,627)	-	(133,627)	(1,080,550)	2,881,050	1,800,500	(552,115)	2,869,172	2,317,057
Net Assets - Beginning of Year	390,372	-	390,372	(877,198)	-	(877,198)	4,155,173	11,878	4,167,051
NET ASSETS - END OF YEAR	<u>\$ 256,745</u>	<u>\$ -</u>	<u>\$ 256,745</u>	<u>\$ (1,957,748)</u>	<u>\$ 2,881,050</u>	<u>\$ 923,302</u>	<u>\$ 3,603,058</u>	<u>\$ 2,881,050</u>	<u>\$ 6,484,108</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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2020.

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 2019-001.

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
February 5, 2020



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, 2019. 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, 2019.

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 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
February 5, 2020

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Agriculture				
Passed through Indiana Department of Education:				
Child Nutrition Cluster - National School Lunch Program	10.555	N/A	\$ -	\$ 322,929
Total Department of Agriculture			-	322,929
Department of Education				
Passed through Indiana Department of Education:				
Title I Grants to Local Educational Agencies	84.010	A18-8-180T	-	419,619
Special Education Cluster - Special Education Grants to States	84.027	1861-572-PN01	-	47,515
Charter School Program	84.282	A58-8-180T-5345	-	236,865
Title II Improving Teacher Quality State Grants	84.367	S367A180013	-	8,677
Title IV Student Support and Academic Enrichment Program	84.424	S424A170015	-	84,829
Total Department of Education			-	797,505
Total Expenditures of Federal Awards			\$ -	\$ 1,120,434

See accompanying Notes to Schedule of Expenditures of Federal Awards.

THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019
(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, 2019. 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, 2019
(SEE INDEPENDENT AUDITORS' REPORT)**

Section I – Summary of Auditors' Results

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
10.555

Name of Federal Program or Cluster

Title I, Grants to Local Educational Agencies
National School Lunch Program

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, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Section II – Financial Statement Findings

2019-001

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, grant income, net assets with donor restriction, accounts payable, and 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 FY2020.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2CFR 200.516(a).

PHALEN LEADERSHIP ACADEMIES



The Phalen Leadership Academy – Indiana, Inc Corrective Action Plan For the Year Ended June 30, 2019

Department of Education and Department of Agriculture

The Phalen Leadership Academy - Indiana, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2019.

Audit period: July 1, 2018 through June 30, 2019

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2019-001 Material Weakness in Internal Control over Financial Reporting

Recommendation: It is recommended 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).

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action in response to finding: 1) The original entry for the security deposit amortization has been corrected and recurring entries will follow recommended treatment and be reviewed monthly with multiple levels of review. 2) The grant transfer entry that was recorded directly to net assets will be corrected to flow through the P&L as recommended. We will add an additional monthly review of all journal entries and financial statements to ensure that the treatment of complex entries is captured correctly. We will also consult CLA if we have questions on treatment.

Name of the contact person responsible for corrective action: Eva Spilker

Planned completion date for corrective action plan: June 30, 2020

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

No findings related to the Major Federal Programs noted.

If the Department of Education or Department of Agriculture have questions regarding this plan, please call Eva Spilker at 410-598-3087.

PHALEN LEADERSHIP ACADEMIES



THE PHALEN LEADERSHIP ACADEMY – INDIANA, INC. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2018

Department of Education

The Phalen Leadership Academy - Indiana, Inc. respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2018.

Audit period: July 1, 2017 through June 30, 2018

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

2018 – 01 Finding Title

Condition: Material Weakness in Internal Control over Financial Reporting

Status: See current year finding 2019-001.

Reason for finding's recurrence: An entry in the prior year was not properly recorded which caused an adjustment to amortization and net assets during the year. Additionally, an entry was required in order to properly record a grant transfer.

Corrective Action: The original entry for the security deposit amortization has been corrected and recurring entries will follow recommended treatment and be reviewed monthly with multiple levels of review. Additional monthly review of all journal entries and financial statements to ensure that the treatment of complex entries is captured correctly.

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

There were no federal award program audit findings in the prior year.

If the Department of Education has questions regarding this schedule, please call Eva Spilker at 410-598-3087.