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# STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

May 26, 2015

Charter School Board
Irvington Community School, Inc.
5751 E. University Avenue
Indianapolis, IN 46219

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLP, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Irvington Community School, Inc., as of June 30, 2014, 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 findings in the report. Pages 32 through 34 contain four current audit findings. Management's planned corrective action follows each finding.

In addition to the report presented herein, a Supplemental Audit Report for Irvington Community School, 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

Paul D. Joyce, CPA
State Examiner

# IRVINGTON COMMUNITY SCHOOLS, INC.

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION

For the Years Ended
June 30, 2014 and 2013

# TABLE OF CONTENTS

Sikich

317.842.4466 // www.sikich.com

8555 N. River Rd., Suite 300
Indianapolis, Indiana 46240

Certified Public Accountants & Advisors
*Members of American Institute of Certified Public Accountants*

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Irvington Community Schools, Inc.
Indianapolis, Indiana:

## Report on the Financial Statements

We have audited the accompanying financial statements of Irvington Community Schools, Inc. (an Indiana non-profit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Irvington Community Schools, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

*Prior Period Adjustment and Restatement*

The accompanying financial statements for Irvington Community Schools, Inc. include prior period adjustments and restatements as noted in Note 12. In years prior to the 2013 fiscal year, the school incorrectly recorded an operating lease as a capital lease. The effect of recording the lease properly decreased total fixed assets, liabilities, and net assets. The other prior period adjustment included the elimination of duplicated expenses. The restatement resulted from elimination of duplicated expenses, accounting for credit cards payables, voided checks, and capital leases being properly classified as operating expenses. With respect to these matters noted, our opinion is not modified.

*Failure to Comply with Debt Covenants*

As noted in Note 8, for the year ended June 30, 2014, Irvington Community Schools, Inc. was not in compliance with certain financial covenants outlined in the bond agreement of one of their bond holders. The bond trustee is unable to waive the non-compliance. However, this non-compliance with certain financial covenants does not constitute an event of default under the agreement and the bonds are not considered current in the accompanying financial statements.

### *Other Matters*

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis, and is also 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 our report dated May 6, 2015, on our consideration of Irvington Community Schools, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Irvington Community Schools, Inc.'s internal control over financial reporting and compliance.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
May 6, 2015

# IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

## ASSETS

| | 2014 | 2013 (Restated) |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 49,094 | $ 95,846 |
| Accounts receivable | 15,528 | - |
| Grants receivable | 56,939 | 155 |
| Deposits with bond trustee - current portion | 435,518 | 428,958 |
| Prepaid expenses | 5,705 | 10,196 |
| Total Current Assets | 562,784 | 535,155 |
| **PROPERTY AND EQUIPMENT:** | | |
| Furniture and equipment | 616,143 | 519,362 |
| Computer hardware | 515,922 | 469,573 |
| Computer software | 103,685 | 103,686 |
| Leasehold improvements | 3,528,803 | 3,517,061 |
| Books and educational materials | 520,847 | 513,010 |
| Building | 3,858,083 | 3,858,083 |
| Land | 556,899 | 556,899 |
| Less: accumulated depreciation | (2,814,510) | (2,431,584) |
| Total Property and Equipment, net | 6,885,872 | 7,106,090 |
| **OTHER ASSETS:** | | |
| Deposits with bond trustee, net of current portion | 781,400 | 781,400 |
| Bond fees, net of amortization of $379,881 and $303,903, respectively | 488,924 | 564,900 |
| Total Other Assets | 1,270,324 | 1,346,300 |
| **TOTAL ASSETS** | $ 8,718,980 | $ 8,987,545 |

See accompanying notes to financial statements.

# IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
(Continued)
JUNE 30, 2014 AND 2013

## LIABILITIES AND NET ASSETS

| | 2014 | 2013 (Restated) |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ 723,514 | $ 588,818 |
| Line of credit | 237,211 | 333,333 |
| Current portion of obligation under capital leases | 60,993 | 51,216 |
| Current portion of bonds payable | 169,357 | 126,511 |
| Accrued interest | 345,518 | 385,818 |
| Deferred income | 112 | 14 |
| Accrued expenses | 151,306 | 17,885 |
| Total Current Liabilities | 1,688,011 | 1,503,595 |
| **LONG TERM LIABILITIES:** | | |
| Obligations under capital leases, net of current portion | 9,636 | 67,500 |
| Bonds payable, net of current portion | 9,132,217 | 9,239,339 |
| Total Long Term Liabilities | 9,141,853 | 9,306,839 |
| **NET ASSETS:** | | |
| Unrestricted | (2,110,884) | (1,822,889) |
| Total Net Assets | (2,110,884) | (1,822,889) |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 8,718,980 | $ 8,987,545 |

See accompanying notes to financial statements.

# IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **REVENUES AND SUPPORT:** | | | |
| School lunch program | $ 114,241 | $ - | $ 114,241 |
| Student and textbook fees | 175,197 | - | 175,197 |
| Before and after school programs | 71,023 | - | 71,023 |
| Contributions and donations | 24,852 | - | 24,852 |
| Grant revenue | 1,611,144 | - | 1,611,144 |
| State support | 6,741,775 | - | 6,741,775 |
| Rental revenue | 6,103 | - | 6,103 |
| Interest income | 1 | - | 1 |
| Other revenue | 74,460 | - | 74,460 |
| In-kind contributions | 277,465 | - | 277,465 |
| Total Revenues and Support | 9,096,261 | - | 9,096,261 |
| **PROGRAM AND SUPPORTING SERVICE EXPENSES:** | | | |
| Program services | 8,027,782 | - | 8,027,782 |
| Supporting services: | | | |
| General and administrative | 1,319,190 | - | 1,319,190 |
| Fundraising | 37,284 | - | 37,284 |
| Total Expenses | 9,384,256 | - | 9,384,256 |
| **CHANGE IN NET ASSETS** | (287,995) | - | (287,995) |
| **NET ASSETS,** beginning of year | (1,822,889) | - | (1,822,889) |
| **NET ASSETS,** end of year | $ (2,110,884) | $ - | $ (2,110,884) |

See accompanying notes to financial statements.

## IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

| | Unrestricted (Restated) | Temporarily Restricted (Restated) | Total (Restated) |
|---|---|---|---|
| **REVENUES AND SUPPORT:** | | | |
| School lunch program | $ 133,978 | $ - | $ 133,978 |
| Student and textbook fees | 196,520 | - | 196,520 |
| Before and after school programs | 44,503 | - | 44,503 |
| Contributions and donations | 10,930 | - | 10,930 |
| Grant revenue | 2,048,425 | - | 2,048,425 |
| State support | 6,639,559 | - | 6,639,559 |
| Rental revenue | 7,865 | - | 7,865 |
| Interest income | 1 | - | 1 |
| Other revenue | 54,622 | - | 54,622 |
| In-kind contributions | 276,488 | - | 276,488 |
| Net assets released from restrictions by satisfaction of temporary restrictions | 52,040 | (52,040) | - |
| Total Revenues and Support | 9,464,931 | (52,040) | 9,412,891 |
| **PROGRAM AND SUPPORTING SERVICE EXPENSES:** | | | |
| Program services | 8,324,197 | - | 8,324,197 |
| Supporting services: | | | |
| General and administrative | 1,099,234 | - | 1,099,234 |
| Fundraising | 9,114 | - | 9,114 |
| Total Expenses | 9,432,545 | - | 9,432,545 |
| **OPERATING REVENUE** | 32,386 | (52,040) | (19,654) |
| **NON-OPERATING REVENUE** | | | |
| Loss due to changes in legislative funding | (377,227) | - | (377,227) |
| **CHANGE IN NET ASSETS** | (344,841) | (52,040) | (396,881) |
| **NET ASSETS,** beginning of year as previously reported | (1,400,168) | 52,040 | (1,348,128) |
| **PRIOR PERIOD ADJUSTMENT** | (77,880) | - | (77,880) |
| **NET ASSETS,** beginning of year, as restated | (1,478,048) | 52,040 | (1,426,008) |
| **NET ASSETS,** end of year | $ (1,822,889) | $ - | $ (1,822,889) |

See accompanying notes to financial statements.

# IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2014 AND 2013

| | 2014 | 2013 (Restated) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ (287,995) | $ (396,881) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 458,903 | 468,654 |
| Loss due to changes in legislative funding | - | 377,227 |
| (Increase) decrease in: | | |
| Accounts receivable | (15,528) | - |
| Grants receivable | (56,784) | 1,195 |
| State support receivable | - | (104,685) |
| Prepaid expense | 4,491 | (5,553) |
| Increase (decrease) in: | | |
| Accounts payable | 134,696 | 89,604 |
| Accrued expenses | 133,421 | 13,036 |
| Accrued interest | (40,300) | (41,571) |
| Deferred revenue | 98 | 14 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 331,002 | 401,040 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Change in deposits with bond trustee | (6,560) | (1,569) |
| Purchases of property and equipment | (162,709) | (139,184) |
| **NET CASH USED BY INVESTING ACTIVITIES** | (169,269) | (140,753) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Net (repayment) borrowings under line of credit agreement | (96,122) | (66,667) |
| Capital lease borrowings | 86,068 | 48,192 |
| Capital lease repayments | (134,155) | (124,041) |
| Long term debt repayments | (64,276) | (40,000) |
| **NET CASH USED BY FINANCING ACTIVITIES** | (208,485) | (182,516) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALANTS** | (46,752) | 77,771 |
| **CASH AND CASH EQUIVALENTS** - beginning of year | 95,846 | 18,075 |
| **CASH AND CASH EQUIVALENTS** - end of year | $ 49,094 | $ 95,846 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Interest paid | $ 426,377 | $ 347,314 |

See accompanying notes to the financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations -*** Irvington Community Schools, Inc. (the "School") was incorporated in 2001, under the laws of the State of Indiana and commenced operations in September 2002. The School is an inner-city Indianapolis charter school that provides a small, safe learning community where respectful behaviors are modeled and expected. The School's primary source of revenue and support are grants from the Indiana Department of Education.

***Basis of Accounting -*** The financial statements of the School have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

***Basis of Presentation -*** As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

***Net Assets -*** The financial statements report amounts separately by class of net assets:

> ***Unrestricted net assets -*** Unrestricted amounts are those currently available for use in the School's activities. Amounts received and released in the same year are shown as unrestricted.
>
> ***Temporarily restricted net assets –*** Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes or the passage of time. If a restriction is fulfilled in the same time period in which the contribution is received, the School reports the support as unrestricted. During June 30, 2014 and 2013, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. As of June 30, 2014 and 2013, the School had no temporarily restricted net assets.
>
> ***Permanently restricted net assets -*** Net assets subject to donor-imposed stipulations require that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2014 and 2013, the School had no permanently restricted net assets.

***Cash and Cash Equivalents -*** For purposes of the statement of cash flows, the School considers all investments purchased with an original maturity of three months or less to be cash equivalents.

***Grants Receivable -*** Grants receivable represent the uncollected portion of funds from grants earned by the School.

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2014 and 2013, based on management's estimate of the amount of receivables that will actually be collected. Grants receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***State Support Receivable –*** Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law.

Tuition support was payable in equal monthly installments in the calendar year following the start of the academic school year (i.e. 6 months in arrears). As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013 tuition support is paid in monthly installments that coincide with the School's fiscal year.

State support receivables are reported net of an allowance for doubtful accounts. As of June 30, 2014 and 2013, the allowance for doubtful accounts was $3,321,893 for both years. This allowance is based upon management's estimate using the expected amount of receivables that will be collected due to the change in legislative funding (See Note 3).

***Property and Equipment -*** Property and equipment are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The School capitalizes additions of property and equipment in excess of $1,000 cost or fair value, if contributed. Depreciation of property and equipment is computed using the straight-line method and based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statements of activities.

Depreciation expense was $382,926 and $392,677 for the years ended June 30, 2014 and 2013, respectively.

***Deposits with Bond Trustee –*** Deposits with bond trustee represent funds held by the trustee, as required by bond indentures and invested by the trustee in short-term marketable government-backed securities. The deposits are measured using quoted prices in active markets for identical securities. Such resources will be utilized to fund certain debt service reserve requirements pursuant to the respective bond indenture agreements.

***Bond Fees -*** The School amortizes the loan fees on the straight-line method over the life of the bonds, which is fifteen years. Amortization expense amounted to $75,977 and $75,977 for the years ended June 30, 2014 and 2013, respectively.

***Impairment of Long-lived Assets -*** The School evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the year ended June 30, 2014 and 2013.

***Contributed Materials and Services -*** Contributed services are recognized as contributions in accordance with generally accepted accounting principles, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

those skills, and would otherwise be purchased by the School. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

The School received $277,465 and $276,488 of in-kind contributions during June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, these amounts were the rent for the School's building ($275,000 for both years), and materials ($2,465 and $1,488, respectively).

Volunteers provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria under generally accepted accounting principles. These services include volunteering at events, picking up donations, and various clerical work.

***Revenue Recognition –*** Revenues primarily come from resources provided under the Indiana Charter School Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered. See Note 3 regarding legislative changes affecting revenue recognition.

A portion of the School's revenue is based on cost reimbursement grants. Accordingly, the School recognizes revenue under the grants in the amounts of costs and expenses at the time they are incurred.

***Functional Expense Allocation -*** The costs of providing the various programs and other activities have been summarized in the statement of activities. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

***Estimates -*** Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the 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 vary from the estimates that were used.

***Advertising -*** The School expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2014 and 2013 was $20,546 and $12,701, respectively.

***Income Taxes -*** The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal year 2010 are open, by statute, for review by authorities. However, at present there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the School currently files or has filed.

***Concentration of Credit Risk -*** Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash and grants receivable.

The School places its cash with financial institutions and limits the amount of credit exposure to any one financial institution. There were no cash amounts in excess of FDIC insured limits at June 30, 2014 and 2013.

Concentrations of credit risk with respect to grants receivable are limited due to the School's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the financial statements and have been within management's expectations.

Operating Funds from the Indiana Department of Education amounted to 74% and 70% of the School's support and revenue in June 30, 2014 and 2013, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

***Risks and Uncertainties –*** The School provides education instruction services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area. The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, non-compliance in regards to federal and state standards and regulations could result in reduction of funding or repayment of disallowed costs.

## NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

***Education -*** The School focuses on hiring the best available teaching talent and providing their teachers with the resources to ensure success in the classroom. This not only includes physical equipment, especially the use of the latest instructional technology, but also employing a performance management system to provide constructive ongoing feedback as a method of continuous improvement. Teachers are coached on developing effective instructional classroom management techniques beyond their school of education training, because ISTEP is the ultimate measure of success of the School's students and teachers in elementary and middle school. The School uses NWEA assessment in grades K-8 to track students' learning progress and prepare them for standardized testing in the spring. Classroom curriculum is, of course, fine-tuned to prepare students for ISTEP. Similarly, the students receive the end of course assessment (ECA) several times during their high school career in preparation to qualify for graduation.

## NOTE 3 – LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year (i.e. 6 months in arrears). As such, prior to July 1, 2013, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered.

Effective July 1, 2013, school funding was paid following the State of Indiana fiscal year of July to June, which aligns with the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 was not received by the School.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School received forgiveness of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities for the year ended June 30, 2013 as a loss due to changes in legislative funding and is comprised of the following:

| | |
|---|---|
| Forgiveness of Common School Fund loans | $2,883,087 |
| Forgiveness of Common School Fund Accrued Interest | 61,582 |
| | 2,944,669 |
| Allowance for doubtful accounts related to changes in legislative funding | (3,321,893) |
| Net loss due to changes in legislation | $ (377,227) |

## NOTE 4 – GRANTS RECEIVABLE

Grants receivable for the years ended June 30, 2014 and 2013 represented amounts due from the Indiana Department of Education relating to the following sources:

| | 2014 | 2013 |
|---|---|---|
| School Safety Grant | $ 32,411 | $ - |
| Title I | 23,356 | 155 |
| Special Education - Assistance | 1,172 | - |
| | $ 56,939 | $ 155 |

## NOTE 5 - OPERATING LEASES

The School leases multiple copiers from Toshiba Business Solutions. The School has an equipment lease with Toshiba that expires in January 2018 and requires monthly payments of $4,189. The School also leases a postage machine from Pitney Bowes. The lease with Pitney Bowes, which expired March 2014, required quarterly payments of $290. Upon renewal of this lease, the School pays $95 per month. The lease with Pitney Bowes now expires in June 30, 2019. The School also leases three credit card machines from Capital A Leasing, Inc. Each credit card machine has a monthly payment of $32 and expires in October 2019. Additionally, the School leases its building for an annual payment of $1. During the year ended June 30, 2014 and 2013, $330,932 and $428,847 was expensed, respectively. Rent expense is net of in-kind rent expense based on the value of the School's building rent of $275,000 for the years ended June 30, 2014 and 2013.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2014 are as follows:

| Year | Amount |
|---|---|
| 2015 | $ 52,569 |
| 2016 | 52,569 |
| 2017 | 52,569 |
| 2018 | 31,622 |
| 2019 and thereafter | 1,437 |
| | $ 190,766 |

## NOTE 6 - LINE OF CREDIT

In 2014, the School entered into default on its bank borrowing, which included the line of credit. The School requested, and the bank agreed, that the bank forbear from exercising its remedies under the loan documents and allow the School to operate for a limited time under a budget provided by the School to the bank. At June 30, 2014 and 2013, the balance of the line of credit was $237,211 and $333,333, respectively.

Under the current forbearance agreement, the School must make monthly payments of principal and interest in the amount of $10,000 until the until the forbearance maturity date of July 2015. The interest rate on this agreement is 3.5% above the bank's prime rate. As of the date of this report, the balance was $166,119.

## NOTE 7 - PENSION PLAN

The School's faculty and certain administrative employees are participants in a 403(b) defined contribution retirement plan. All participants may contribute to the Plan. There was a total 403(b) employer contribution of $177,786 and $216,106 for the years ended June 30, 2014 and 2013, respectively.

## NOTE 7 - PENSION PLAN (Continued)

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. The Indiana Public Employee's Retirement Fund (PERF) is a defined benefit pension plan. PERF is a cost-sharing multiple-employer public employee retirement plan, 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. The Indiana Teachers' Retirement Fund (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. Retirement plan expenses for PERF and TRF were $94,568 and $97,861 for the years ended June 30, 2014 and 2013, respectively.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

## NOTE 8 - LONG-TERM DEBT ACTIVITY

Long-term debt included the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Bonds Payable in semi - annual installments, including interest computed at 6.09%, through maturity in December 2030 (a) | 1,261,189 | 1,285,484 |
| Bonds Payable in semi - annual installments, including interest computed at 7.75%, through maturity in July 2023 (b) | 1,040,000 | 1,040,000 |
| Bonds Payable in semi - annual installments, including interest computed at 8%, through maturity in July 2029 (b) | 1,385,000 | 1,385,000 |
| Bonds Payable in semi - annual installments, including interest computed at 9%, through maturity in July 2039 (b) | 5,325,000 | 5,325,000 |
| Bonds Payable in semi - annual installments, including interest computed at 8.375%, through maturity in July 2016 (c) | 240,019 | 280,000 |
| Bonds Premium Amortized, straight line | 50,366 | 50,366 |
| Less: current maturities | (169,357) | (126,511) |
| Total Long-term Debt | $ 9,132,217 | $ 9,239,339 |

(a) Qualified Zone Academy Bond (QZABs). Under the American Recovery and Reinvestment Act of 2009, the Federal Treasury created QZABs tax credit bonds, which provide federal subsidy equal to 5.67% interest.

(b) Educational Facilities Revenue Bonds, Series 2009A

## NOTE 8 - LONG-TERM DEBT ACTIVITY (Continued)

(c) Educational Facilities Revenue Bond, Series 2009A - Taxable

As a result of the issuance of bonds, the School is required to establish that certain funds be held by a trustee for the payment of principal, interest and cash reserves. These funds consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Bond Principal Fund: | $ 90,000 | $ 80,017 |
| Bond Interest Fund: | 345,518 | 348,941 |
| Bond Reserve Fund: | 781,400 | 781,400 |
| | $1,216,918 | $1,210,358 |

At June 30, 2014, the debt service requirements of loans payable for school activities were as follows:

| Year Ending | Principal | Interest | Service |
|---|---|---|---|
| June 30,2015 | $ 169,357 | $ 764,876 | $ 934,233 |
| June 30,2016 | 175,777 | 755,566 | 931,343 |
| June 30,2017 | 191,264 | 741,860 | 933,124 |
| June 30,2018 | 202,124 | 727,497 | 929,621 |
| June 30, 2019-and thereafter | 8,563,052 | 10,245,486 | 18,808,538 |
| | $ 9,301,574 | $ 13,235,285 | $ 22,536,859 |

For the year ended June 30, 2014, the School was not in compliance with certain financial covenants outlined in the bond agreement. Pursuant to the bond indenture agreement, the failure to observe any covenant does not constitute an Event of Default. No Event of Default shall be deemed to occur so long as actions are adequate in the judgment of the trustee. In addition, in accordance with the bond agreement, the School has a period of time ranging from 12 months to 24 months, depending on the specific covenant, after initial non-compliance to comply with the covenants. After which, the Beneficial Owners of 2/3$^{rds}$ of the outstanding bonds shall have the right to direct the Trustee of the bonds to require the School to engage a management consultant.

Until such time as 2/3$^{rds}$ of the Beneficial Owners vote for a resolution to accelerate payment, the bonds do not come due in advance of stated payments and as such the bonds are not classified as current due to the non-compliance.

Total interest expense during the years ended June 30, 2014 and 2013 was $771,894 and $733,132, respectively.

## NOTE 9 - CAPITAL LEASE COMMITMENTS

The School leases equipment in the ordinary course of business. The School is obligated under multiple capital lease commitments which have various maturity dates, and require various monthly payments.

The assets and liabilities under capital leases are recorded at the fair value of the assets. The assets are depreciated over their estimated useful lives of five years. As leases expire, the School would normally expect to purchase the equipment. The leased equipment has a cost of $281,669. The amortization of these assets under the capital lease is included in depreciation expense.

At June 30, 2014 the required minimum capital lease payments are as follows for the years ended:

| Years ending June 30, | Amount |
|---|---|
| 2015 | $ 82,025 |
| 2016 | 12,449 |
| Total future minimum lease payments | 94,474 |
| Less amount representing interest | (23,845) |
| Present Value of future minimum lease payments | $ 70,629 |

## NOTE 10 - FAIR VALUE MEASUREMENTS

FASB guidance on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

***Level 1 -*** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

***Level 2 -*** Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

***Level 3 -*** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## NOTE 10 - FAIR VALUE MEASUREMENTS (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **June 30, 2014** | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Restricted cash equivalents | $1,216,918 | $ - | $ 1,216,918 | $ - |
| Total | $1,216,918 | $ - | $ 1,216,918 | $ - |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **June 30, 2013** | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Restricted cash equivalents | $1,210,358 | $ - | $ 1,210,358 | $ - |
| Total | $1,210,358 | $ - | $ 1,210,358 | $ - |

## NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the carrying values and estimated fair values of the School's financial instruments at June 30, 2014 and 2013.

| | | Fair Value | | |
|---|---|---|---|---|
| | Carrying Value | (Level 1) | (Level 2) | (Level 3) |
| **June 30, 2014** | | | | |
| Assets | | | | |
| Cash and cash equivalents | $ 49,094 | $ 49,094 | $ - | $ - |
| Grants receivable | 56,939 | - | - | 56,939 |
| Restricted cash and cash equivalents | 1,216,918 | - | 1,216,918 | - |
| Liabilities | | | | |
| Line of credit | 237,211 | - | - | 237,211 |
| Bonds and notes payable | 9,821,014 | - | 9,821,014 | - |

| | | Fair Value | | |
|---|---|---|---|---|
| | Carrying Value | (Level 1) | (Level 2) | (Level 3) |
| **June 30, 2013** | | | | |
| Assets | | | | |
| Cash and cash equivalents | $ 95,846 | $ 95,846 | $ - | $ - |
| Grants receivable | 155 | - | - | 155 |
| Restricted cash and cash equivalents | 1,210,358 | - | 1,210,358 | - |
| Liabilities | | | | |
| Line of credit | 333,333 | - | - | 333,333 |
| Bonds and notes payable | 10,875,701 | - | 10,875,701 | - |

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

***Cash and Restricted Cash Equivalents –*** Cash and restricted cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value. Restricted cash equivalents include the deposits with the bond trustee.

***Grants Receivable –*** The carrying amount reported is recorded net of allowance for doubtful accounts and approximates its fair value.

## NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

***Line of Credit –*** The carrying value of the line of credit is presumed to approximate the fair value.

***Bonds and Notes Payable –*** The carrying value of the loans and bonds payable is calculated at fair value.

## NOTE 12 - PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

*Prior Period Adjustment*

During fiscal year 2014, the School discovered that three operating leases had incorrectly been classified as capital leases in the years prior to the 2013 fiscal year. This resulted in fixed assets being overstated by $153,857 and long term liabilities being overstated by $73,836 at the beginning of the 2013 fiscal year. The net asset effect results in a decrease of $80,021. The school also noticed that accounts payable and expenses relating to the years prior to the 2013 fiscal year were being overstated by $2,141 due to duplicated expenses, with a corresponding net asset increase of the same amount. The accompanying financial statements properly reflect the classification of leases and removal of duplicated expenses.

| | |
|---|---|
| Beginning net assets for the year ended June 30, 2013 as previously reported | $ (1,348,128) |
| Prior period adjustment; elimination of duplicated expenses and reclassification of leases | (77,880) |
| Beginning net assets for the year ended June 30, 2013, as restated | $ (1,426,008) |

*Restatement*

During fiscal year 2014, the School discovered that a number of expenses were duplicated, a number of credit card expenses were not recorded, and a number of checks needed to be voided. The School also discovered that three operating leases were incorrectly classified as capital leases. As a result, the School has restated the fiscal year 2013 statement of activities and changes in net assets and statement of financial position.

## NOTE 12 - PRIOR PERIOD ADJUSTMENT AND RESTATEMENT (Continued)

Restatements to the financial statements for the year ended June 30, 2013 are as follows:

| | |
|---|---|
| Statement of activities effect: | |
| Change in net assets as previously reported | $ (385,948) |
| Elimination of duplicated expenses | 28,509 |
| Addition of payables on credit card | (19,059) |
| In-kind rent revenue | 275,000 |
| In-kind rent expense | (275,000) |
| Voided checks | 2,930 |
| Removal of depreciation expense | 50,523 |
| Capital lease payment reclassified as an operating lease expense | (73,836) |
| Change in net assets as restated | $ (396,881) |
| Financial position effect: | |
| Decrease in payable | $ 9,450 |
| Increase in cash | 2,931 |
| Decrease in property and equipment | (277,922) |
| Decrease in accumulated depreciation | 50,523 |
| Net effect on unrestricted net assets | $ (215,018) |

## NOTE 13 - SUBSEQUENT EVENT

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through May 6, 2015, the date the financial statements were issued. As of the date of this report, the fair market value of the bond obligations was $9,419,846.

# IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

| | Program Service Expenses | | | Supporting Services | | |
|---|---|---|---|---|---|---|
| | Grants | Academics | Total Program Services | Management and General | Fundraising | Total Expenses |
| Salaries and benefits | $ 1,508,828 | $ 3,658,351 | $ 5,167,179 | $ 792,435 | $ 29,554 | $ 5,989,168 |
| Instructional services | - | 86,033 | 86,033 | - | - | 86,033 |
| Information technology | - | 34,358 | 34,358 | - | - | 34,358 |
| Accounting services | - | - | - | 88,144 | - | 88,144 |
| Other outside services | - | 326,812 | 326,812 | 188,128 | 1,115 | 516,055 |
| Course materials/supplies | - | 98,052 | 98,052 | - | - | 98,052 |
| Nutritional support | 245,453 | 60,193 | 305,646 | - | - | 305,646 |
| Travel and entertainment | - | 46,983 | 46,983 | 1,124 | - | 48,107 |
| Vehicle/transportation expense | - | 12,404 | 12,404 | - | - | 12,404 |
| Facility occupancy costs | - | 833,437 | 833,437 | - | - | 833,437 |
| Depreciation and amortization | - | 400,252 | 400,252 | 58,651 | - | 458,903 |
| Interest expense | - | 673,218 | 673,218 | 98,676 | - | 771,894 |
| Insurance | - | - | - | 92,032 | - | 92,032 |
| Advertising expenses | - | 13,931 | 13,931 | - | 6,615 | 20,546 |
| Small equipment purchases | - | 29,477 | 29,477 | - | - | 29,477 |
| Grand Total | $ 1,754,281 | $ 6,273,501 | $ 8,027,782 | $ 1,319,190 | $ 37,284 | $ 9,384,256 |

# IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
(Restated)
YEAR ENDED JUNE 30, 2013

| | Program Service Expenses | | | Supporting Services | | |
|---|---|---|---|---|---|---|
| | Grants | Academics | Total Program Services | Management and General | Fundraising | Total Expenses |
| Salaries and benefits | $ 1,264,560 | $ 4,170,455 | $ 5,435,015 | $ 618,120 | $ - | $ 6,053,135 |
| Instructional services | 24,195 | 72,723 | 96,918 | - | - | 96,918 |
| Information technology | 66,823 | 345,003 | 411,826 | 43,316 | - | 455,142 |
| Accounting services | - | - | - | 91,999 | - | 91,999 |
| Other outside services | - | 136,411 | 136,411 | 105,608 | 5,000 | 247,019 |
| Course materials/supplies | 17,202 | 130,168 | 147,370 | 11,672 | - | 159,042 |
| Nutritional support | 1,522 | 367,428 | 368,949 | - | - | 368,949 |
| Travel and entertainment | 12,280 | 45,016 | 57,296 | 526 | - | 57,822 |
| Vehicle/transportation expense | 628 | 8,445 | 9,073 | - | - | 9,073 |
| Facility occupancy costs | - | 601,474 | 601,474 | - | - | 601,474 |
| Depreciation and amortization | - | 408,754 | 408,754 | 59,900 | - | 468,654 |
| Interest expense | - | 642,157 | 642,157 | 90,975 | - | 733,132 |
| Insurance | - | - | - | 77,118 | - | 77,118 |
| Advertising expenses | - | 8,587 | 8,587 | - | 4,114 | 12,701 |
| Small equipment purchases | 366 | - | 366 | - | - | 366 |
| Grand Total | $ 1,387,576 | $ 6,936,621 | $ 8,324,197 | $ 1,099,234 | $ 9,114 | $ 9,432,545 |

See accompanying notes to the financial statements.

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8555 N. River Rd., Suite 300
Indianapolis, Indiana 46240

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# INDEPENDENT AUDITOR'S 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*

To the Board of Directors
of Irvington Community Schools, 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 Irvington Community Schools, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 6, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Irvington Community Schools, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Irvington Community Schools, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Irvington Community Schools, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in items 2014-001 and 2014-002 in the accompanying schedule of findings and questioned costs to be material weaknesses.

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. We consider the deficiency described in item 2014-003 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Irvington Community Schools, 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*.

**Irvington Community Schools, Inc.'s Response to Findings**

Irvington Community Schools, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Irvington Community Schools, 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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
May 6, 2015

**IRVINGTON COMMUNITY SCHOOLS, INC.**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Total Federal Expenditures |
|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | |
| Passed through the Indiana Department of Education | | |
| Child Nutrition Cluster | | |
| National School Lunch Program | 10.555* | $ 241,308 |
| School Breakfast Program | 10.553* | 16,495 |
| Total for Child Nutrition Cluster | | 257,803 |
| Total for U.S. Department of Agriculture | | 257,803 |
| **U.S. DEPARTMENT OF EDUCATION** | | |
| Passed through the Indiana Department of Education | | |
| Title I, Part A Cluster | | |
| Title I Grants to Local Educational Agencies | 84.010* | 557,808 |
| Total Title I, Part A Cluster | 84.010* | 557,808 |
| Special Education Cluster (IDEA) | | |
| Special Education Grants to States (IDEA, Part B) | 84.027 | 159,053 |
| Total Special Education Cluster (IDEA) | 84.027 | 159,053 |
| Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities | 84.326 | 1,172 |
| Improving Teacher Quality State Grants | 84.367 | 81,539 |
| Teacher Incentive Fund | 84.374 | 150,761 |
| | | 262,395 |
| Total for Teacher Incentive Fund | 84.374 | 413,156 |
| Total U.S. Department of Education | | 1,212,728 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | $ 1,470,531 |

* *Denotes a major program*

See accompanying notes to the Schedule of Expenditures of Federal Awards.

## NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Irvington Community Schools, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

OMB Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of $500,000 in any fiscal year unless by constitution or statute a less frequent audit is required.

## NOTE 2 – OTHER

There were no amounts provided to sub-recipients; there was no non-cash assistance; there was no federal insurance in effect; and there were no loans or loan guarantees with continuing compliance requirements.

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
of Irvington Community Schools, Inc.
Indianapolis, Indiana:

**Report on Compliance for Each Major Federal Program**

We have audited Irvington Community Schools, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Irvington Community Schools, Inc.'s major federal programs for the year ended June 30, 2014. Irvington Community Schools, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Irvington Community Schools, Inc.'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Irvington Community Schools, Inc.'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 Irvington Community Schools, Inc.'s compliance.

**Opinion on Each Major Federal Program**

In our opinion, Irvington Community Schools, Inc. 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, 2014.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

Irvington Community Schools, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Irvington Community Schools, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of Irvington Community Schools, Inc. 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 Irvington Community Schools, Inc.'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 OMB Circular A-133, 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 Irvington Community Schools, Inc.'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 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-004 that we consider to be significant deficiencies.

Irvington Community Schools, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Irvington Community Schools, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
May 6, 2015

# IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

## Section I – Summary of Auditor's Results

***Financial Statements***

| | |
|---|---|
| Type of auditors' report issued: | unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | _X_ yes ____ no |
| Deficiencies identified that are not considered to be material weaknesses? | _X_ yes ____ no |
| Noncompliance material to financial statements noted? | ____ yes _X_ no |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | ____ yes _X_ no |
| Deficiencies identified that are not considered to be material weaknesses? | _X_ yes ____ none reported |
| Type of auditor's report issued on compliance for major programs: | unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section510(a)? | _X_ yes ____ no |

Identified as major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 84.010 | Title I, Grants to Local Educational Agencies |
| 10.553, 10.555 | Child Nutrition Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 300,000 |
| Auditee qualified as low-risk auditee? | ____ yes _X_ no |

## SECTION II – FINANCIAL STATEMENTS FINDINGS

### 2014-001: Prior Period Adjustment

*Condition:* During the audit, management brought to our attention that in prior years, expenses had been duplicated, a number of credit card expenses had not been recorded, and a number of checks needed to be voided. In addition, three operating leases had incorrectly been classified as capital leases. Sikich proposed several material prior period adjustments to correct the financial statements. In aggregate, the correcting entries decreased fixed assets by $153,857, decreased accounts payable by $2,141, and decreased long term liabilities by $73,836, with a net asset effect of a decrease of $77,880. We consider this finding to be a material weakness in internal control over financial reporting.

*Criteria:* Organizations are responsible to maintain a system of internal control over the preparation of financial statements including all required footnotes that are free from material errors and are in accordance with generally accepted accounting principles (GAAP).

*Cause:* The contracted bookkeeping service did not appropriately record the School's expenses.

*Effect:* Financial statements are not presented in accordance with GAAP prior to recording proposed entries.

*Recommendation:* We recommend that management review current controls and procedures in place to reasonably ensure future financial statements are free of material misstatements.

*Management Corrective Action:* Effective immediately, the Chief Financial Officer will review and modify controls and procedures to address material weaknesses.

### 2014-002: Material Adjusting Entries

*Condition:* During the audit, we had to record material adjustments to correct the accounts receivable balance as of June 30, 2014 and to correct the classification of leases. We consider this finding to be a material weakness in internal control over financial reporting.

*Criteria:* Misstatement of the School's financial statements should be detected and prevented by the School's internal control over financial reporting.

*Cause:* Internal controls of the School were not adequately designed to detect and correct the material misstatement of accounts receivable and the classification of leases on a timely basis.

*Effect:* A journal entry was proposed to reduce accounts receivable by $97,598 and reduce revenue by the same amount. Another journal entry was created that increased fixed assets by $85,451, increased short term liabilities by $17,750, and decreased expenses by $67,701.

*Recommendation:* We recommend that management review current controls and procedures in place to reasonably ensure future financial statements are free of material misstatements.

*Management's Corrective Action:* Effective immediately, the Chief Financial Officer will review and modify controls and procedures to address material weaknesses.

## SECTION II – FINANCIAL STATEMENTS FINDINGS (Continued)

### 2014-003: Completeness of Accounts Payable

*Condition:* During the audit, we noted a number of accounts payable had been written off due to the School writing checks but not sending them to the vendor. We consider this finding to be a significant deficiency in internal control over financial reporting.

*Criteria:* Misstatement of the School's financial statements should be detected and prevented by the School's internal control over financial reporting.

*Cause:* Internal controls of the School were not adequately designed to detect and correct the misstatement of accounts payable on a timely basis.

*Effect:* A journal entry was proposed to increase accounts payable by $15,369 and to increase cash by the same amount.

*Recommendation:* We recommend that management review current controls and procedures in place to reasonably ensure future financial statements are free of significant deficiencies.

*Management's Corrective Action:* Effective immediately, the Chief Financial Officer will review and modify controls and procedures to address significant deficiencies.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### 2014-004: Failure To Complete Audit In Accordance With The Requirements of OMB Circular A-133
**U.S. Department of Agriculture**
**U.S. Department of Education**

*Condition:* An audit of the School's financial statements and compliance with major program requirements for the year ended June 30, 2013 was not conducted within the time frame required by OMB Circular A-133.

*Criteria:* OMB Circular A-133, Subpart B §___.200 paragraph (a) states: " Non-Federal entities that expend $500,000 or more in a year in federal awards shall have a single or program specific audit conducted for that year in accordance with the provisions of this part." Additionally, OMB Circular A-133 requires annual audits except in certain circumstances in which case biennially. In either case, the audit must be completed within 9 months of the audit period.

*Cause:* The School had engaged with a certified public accountant to conduct the June 30, 2013 audit as required by OMB Circular A-133. However, during the course of the audit, difficulties were encountered in receiving needed documentation which delayed the completion of the audit. This was outside the control of the School.

*Effect:* The School is not in compliance with OMB Circular A-133 for the year ended June 30, 2013.

*Recommendation:* Since the School now has a completed audit for the year ended June 30, 2014 no formal recommendation is necessary.

*Management Corrective Action:* We have now completed the audit for year ended June 30, 2014 so no further action is necessary.

## SECTION IV – PRIOR PERIOD FOLLOW UP

| Prior Finding | Condition | Status |
|---|---|---|
| 2013-001 | A prior period adjustment was necessary in order to correct the prior year's numbers | Repeated |

## IRVINGTON COMMUNITY SCHOOLS, INC.
OTHER REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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

Supplemental Audit Report of Irvington Community Schools, Inc.