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October 6, 2016

Charter School Board
Irvington Community Schools
5751 E University Ave.
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, 2015 to June 30, 2016. 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 Schools, as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for the Irvington Community Schools, 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, 2015 and 2014

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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. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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

Restatement of 2014 Financial Statements

As discussed in Note 9 to the financial statements, the School restated the 2014 financial statements to correct unamortized premium on bonds payable, accrual for retirement plan, and the recognition of revenue received from contributed rent. Our opinion is not modified with respect to these matters.

Failure to Comply with Debt Covenants

As noted in Note 7, for the year ended June 30, 2015, Irvington Community Schools, Inc. was not in compliance with all financial covenants outlined in the bond agreements of their bond holders.

Other Matter - *Supplementary 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 the 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 September 27, 2016, 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

Indianapolis, Indiana
September 27, 2016

FINANCIAL STATEMENTS

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30,

	2015	(As restated) 2014
ASSETS		
Cash and cash equivalents	$ 70,408	$ 49,094
Accounts receivable	-	15,528
Grants receivable	22,801	56,939
Prepaid expense	112,912	5,705
Property and equipment, net	6,636,524	6,885,872
Deposits	1,707	-
Contribution receivable	344,000	344,000
Deposits with bond trustee	1,218,006	1,216,918
Bond fees, net of amortization of $455,858 and $379,881, respectively	412,947	488,924
TOTAL ASSETS	$ 8,819,305	$ 9,062,980
LIABILITIES AND NET ASSETS		
Accounts payable	$ 593,368	$ 723,514
Line of credit	172,073	237,211
Accrued interest	341,423	345,518
Deferred income	25,009	112
Accrued expenses	513,389	263,529
Obligations under capital leases	55,927	70,629
Bonds payable	9,103,343	9,251,208
Total liabilities	10,804,532	10,891,721
NET ASSETS (DEFICIT)		
Unrestricted net deficit	(2,329,227)	(2,172,741)
Temporarily restricted	344,000	344,000
TOTAL NET DEFICIT	(1,985,227)	(1,828,741)
TOTAL LIABILITIES AND NET DEFICIT	$ 8,819,305	$ 9,062,980

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENT OF ACTIVITIES

For the Years Ended June 30,

	2015	(As restated) 2014
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT		
School lunch program	$ 100,297	$ 114,241
Student and textbook fees	163,943	175,197
Before and after school programs	46,835	71,023
Contributions and donations	36,218	24,852
Grant revenue	1,577,234	1,611,144
State support	6,731,966	6,741,775
Rental revenue	16,673	6,103
Other revenue	143,160	74,461
In-kind contributions	558,506	277,465
Total revenues and support	9,374,832	9,096,261
PROGRAM AND SUPPORTING SERVICE EXPENSES		
Program services	7,913,123	8,128,884
Supporting services:		
General and administrative	1,461,633	1,330,311
Fundraising	156,562	37,284
Total expenses	9,531,318	9,496,479
Decrease in unrestricted net assets	(156,486)	(400,218)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	-	-
DECREASE IN NET ASSETS	(156,486)	(400,218)
Beginning of year, as previously reported	(1,828,741)	(1,822,889)
Restatement	-	394,366
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	(1,828,741)	(1,428,523)
NET ASSETS, END OF YEAR	$ (1,985,227)	$ (1,828,741)

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

	2015	(As restated) 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (156,486)	$ (400,218)
Adjustments to reconcile change in net assets from operating activities:		
Depreciation and amortization	431,086	458,903
Bad debt	41,497	-
(Increase) decrease in:		
Accounts receivable	(25,969)	(15,528)
Grants receivable	34,138	(56,784)
Prepaid expense	(107,207)	4,491
Deposits	(1,707)	-
Increase (decrease) in:		
Accounts payable	(130,143)	134,696
Accrued interest	24,897	(40,300)
Deferred revenue	249,860	98
Accrued expenses	(4,095)	245,644
Net cash and cash equivalents provided from operating activities	355,871	331,002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in deposits with bond trustee	(1,088)	(6,560)
Purchases of property and equipment	(85,151)	(76,641)
Net cash and cash equivalents (used) in investing activities	(86,239)	(83,201)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit borrowings	34,111	-
Line of credit repayments	(99,249)	(96,122)
Capital lease repayments	(35,315)	(134,155)
Long term debt repayments	(147,865)	(64,276)
Net cash and cash equivalents (used) in financing activities	(248,318)	(294,553)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALANTS	21,314	(46,752)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	49,094	95,846
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 70,408	$ 49,094

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

(Continued)	**2015**	**(As restated) 2014**
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Assets acquired under capital leases	$ 20,612	$ 86,068
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 378,756	$ 426,377

See accompanying notes to financial statements.

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.

The School operates a public charter school established under Indiana Code 20-24-3-1 and is sponsored by the Mayor of the Consolidated City of Indianapolis (Sponsor), which is responsible for oversight of the School’s operations. The charter expires on June 30, 2023. There were no fees paid to the Sponsor for the years ended June 30, 2015 and 2014.

Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (USGAAP).

Basis of Presentation

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

Unrestricted net assets - Net assets available for general use in operations. The School has adopted the policy of recording donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Temporarily restricted net assets - Temporarily restricted net assets are those which have donor-imposed restrictions as to time, purpose, or both. As of June 30, 2015 and 2014, the School had $344,000 temporarily restricted net assets related to contributed rent.

Permanently restricted net assets - Permanently restricted amounts are those which are subject to donor-imposed stipulations that require they be maintained permanently by the School. Generally, the donors of these assets permit the use of all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2015 and 2014, the School had no permanently restricted net assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The School considers all short-term investments in interest-bearing bank accounts having an original maturity of three months or less to be cash equivalents.

Grants Receivable

Grants receivable are amounts due under cost reimbursable contracts with primarily state and federal government agencies. Invoicing and payment terms are provided in the contracts.

Management reviews grant receivables on a periodic basis to determine if any receivables will potentially be uncollectable. The School includes any grant receivable balances that are determined to be uncollectable in its allowance for doubtful accounts. After all attempts to collect the receivable have failed, the receivable is written-off against the allowance. Based upon management's evaluation as of June 30, 2015 and 2014, an allowance for uncollectible accounts was not considered necessary. However, actual write-offs may occur.

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 is 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 statement of activities.

Deposits with Bond Trustee

Deposits with bond trustee represent funds held by the trustee, as required by bond indentures.

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 for the years ended June 30, 2015 and 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Materials and Services

Contributed services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by 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.

Non-cash, in-kind contributions are recorded at fair value and recognized as revenue in the accounting period when they are received.

The School received $558,506 and $277,465 of in-kind contributions during the year ended June 30, 2015 and 2014, respectively, primarily consisting of rent for the School's building of approximately $275,000 in 2015 and 2014, and nursing services of approximately $277,000 and $0 in 2015 and 2014, 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.

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 is paid in equal monthly installments in July through June following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of 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

Expenses are allocated to the programs based on estimated time spent in each program. Expenses related directly to specific programs are charged to that program. Expenses that relate to more than one program or supporting service are allocated according to a cost allocation plan based on direct labor hours, square footage or other measures deemed appropriate for each cost category.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of the financial statements in conformity with USGAAP 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

Advertising

The School expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2015 and 2014 was $16,440 and $20,546, respectively.

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code as other than a private foundation and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the code. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

Concentration of Operations and Credit Risk

Credit Risk

The School places its temporary cash investments with financial institutions. There were no cash amounts in excess of Federal Deposit Insurance Corporation insured limits at June 30, 2015 and 2014. Historically, the School has not experienced losses on uninsured balances.

Business Risk

Operating Funds from the Indiana Department of Education amounted to 72% and 74% of the School's support and revenue in June 30, 2015 and 2014, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments

In January 2016, the FASB issued guidance in Accounting Standards Update No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (*ASU No. 2016-01). ASU No. 2016-01 was issued to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other provisions, ASU No. 2016-01 removes the requirement to disclose fair value of financial instruments measured at amortized cost for entities that are not public business entities. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2018, with early application of the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost permitted. The School has adopted the early application provision of ASU No. 2016-01 in fiscal year 2015.

2. GRANTS AND CONTRIBUTION RECEIVABLE

Grants receivable for the years ended June 30, 2015 and 2014 represented amounts due from the Indiana Department of Education relating to the following grants:

	2015	2014
Child Nutrition	$ 12,521	$ -
School Safety Grant	-	32,411
Special Education - Assistance	-	1,172
Title I	10,280	23,356
	$ 22,801	$ 56,939

Contributions receivable consist of the value of the donated use of the building in connection with a long term lease (Note 4). The fair value of the future contributed use of the building to be received was based on the fair value of the rent at the date of initial recognition. The contribution amounts under this lease agreement as of June 30, are as follows:

	2015	2014
Receivable in less than one year	$ 275,200	$ 275,200
Receivable in one to five years	68,800	68,800
Contributions receivable	$ 344,000	$ 344,000

3. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

	2015	2014
Furniture and equipment	$ 664,842	$ 616,143
Computer hardware	524,617	515,922
Computer software	110,685	103,685
Leasehold improvements	3,549,616	3,528,803
Books and educational materials	529,001	520,847
Building	3,858,083	3,858,083
Land	556,899	556,899
Vehicles	12,400	-
Total property and equipment	9,806,143	9,700,382
Less: Accumulated depreciation	(3,169,619)	(2,814,510)
Total property and equipment, net	$ 6,636,524	$ 6,885,872

Depreciation expense was $355,109 and $382,926 for the years ended June 30, 2015 and 2014, respectively.

4. OPERATING LEASES

The School leases various equipment and facilities under separate operating leases expiring through June 2026. As of June 30, 2015 and 2014, $356,528 and $330,932, respectively, was incurred and expensed related to the leases. Rent expense includes in-kind rent based on the value of the School's building rent of $275,000 for the years ended June 30, 2015 and 2014.

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

	Amount
2016	$ 52,569
2017	52,569
2018	30,755
2019	1,141
2020	1
Thereafter	6
	$ 137,041

5. 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. The forbearance agreement continued through 2015. At June 30, 2015 and 2014, the balance of the line of credit was $172,073 and $237,211, respectively.

Under the forbearance agreement, the School must make monthly payments of principal and interest in the amount of $10,000 through July 2015, the original maturity date, with an interest rate of 3.5% above the bank's prime rate. In September 2015, the bank extended the forbearance maturity date to October 31, 2016 with monthly payments of principal and interest in the amount of $12,000. The interest rate on this agreement is a fixed rate equal to 7.0%. As of the date of this report, the balance was $0.

6. RETIREMENT PLANS

<u>403(b) Plan</u>

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. The School may make discretionary pro-rata contributions to the plan. Total contributions to the Plan during 2015 and 2014 were $20,000 and $61,391, respectively. The School has recorded a liability for its contribution to the Plan of $503,711 and $254,797 and is included in accrued expenses as of June 30, 2015 and 2014, respectively.

<u>Pension Plan</u>

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 $104,478 and $96,768 for the years ended June 30, 2015 and 2014, 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 or visiting www.in.gov/inprs/.

7. LONG-TERM DEBT ACTIVITY

Long-term debt included the following at June 30, 2015 and 2014:

	2015	(As restated) 2014
Bonds Payable in semi - annual installments, including interest computed at 6.09%, through maturity in December 2025 (a)	$ 1,203,324	$ 1,261,189
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)	150,019	240,019
Total Bonds Payable	9,103,343	9,251,208
Less: current maturities	(180,551)	(169,357)
Total Long-term Debt	$ 8,922,792	$ 9,081,851

(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. The bonds payable has certain restrictive covenants with which the School was not in compliance. The bank has waived, without penalty, compliance for the period ending June 30, 2015.

(b) Educational Facilities Revenue Bonds, Series 2009A

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

For the years ended June 30, 2015 and 2014, the School was not in compliance with all financial covenants outlined in the bond agreement for bonds (b) and (c) above. 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.

7. LONG-TERM DEBT ACTIVITY (Continued)

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:

	2015	2014
Bond Principal Fund	$ 95,010	$ 90,000
Bond Interest Fund	341,596	345,518
Bond Reserve Fund	781,400	781,400
	$ 1,218,006	$ 1,216,918

Total debt service requirements of bonds payable for school activities as of June 30, 2015 were as follows for the years ending June 30,:

	Total Principal	Total Interest	Total Debt Service
2016	$ 180,551	$ 752,994	$ 933,545
2017	192,574	742,936	935,510
2018	203,523	728,485	932,008
2019	219,875	713,219	933,094
2020	236,660	696,748	933,408
Thereafter	8,070,160	8,839,402	16,909,562
	$ 9,103,343	$ 12,473,784	$ 21,577,127

Total interest expense during the years ended June 30, 2015 and 2014 was $712,147 and $749,327, respectively.

As of the date of this report, the fair market value of the bond obligations was $9,807,472.

8. 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 lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over the lesser of their related lease term or their estimated useful lives. As leases expire, the School would normally expect to purchase the equipment. The leased equipment has a cost of $113,457 and $69,377 as of June 30, 2015 and 2014, respectively. Accumulated amortization of the leased equipment totaled $28,316 and $23,519 as of June 30, 2015 and 2014, respectively. The amortization of these assets under the capital lease is included in depreciation expense.

At June 30, 2015 the required minimum capital lease payments are as follows for the years ended June 30:

2016	$	31,389
2017		20,482
2018		10,240
Total future minimum lease payments		62,111
Less amount representing interest		(6,184)
Present value of future minimum lease payments		55,927
Less current portion of minimum lease payments		(27,458)
Long-term capital lease obligations	$	28,469

9. RESTATEMENTS

During 2015, it was determined that the School under accrued for the liability related to the employer contributions to the 403(b) plan. USGAAP requires the liabilities to be recorded at the date incurred and when the amount is determinable. It was also determined that the School did not recognize the contributed rent for use of the building. USGAAP requires the contribution to be recorded at its fair value at the date of the unconditional promise to give. In addition, it was determined that the bond premiums were not amortized over the life of the matured bond. USGAAP requires bond premiums to be amortized over the life of the bond and to be fully amortized at the maturity date.

The 2014 financial statements have been restated as follows:

	Previously Reported	Restated Amount
Statement of financial position		
Contribution receivable	$ -	$ 344,000
Accrued expenses	151,306	263,529
Bonds payable	9,301,574	9,251,208
Net assets		
Unrestricted deficit	(2,110,884)	(2,172,741)
Temporarily restricted net assets	-	344,000
Statement of Activities		
Program services	$ 8,027,782	$ 8,128,884
General and administrative	1,319,190	1,330,311

The 2013 financial statements have been restated as follows:

	Previously Reported	Restated Amount
Statement of financial position		
Net assets		
Unrestricted deficit	$ (1,822,889)	$ (1,772,523)
Temporarily restricted net assets	-	344,000

10. SUBSEQUENT EVENT

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through September 27, 2016, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

IRVINGTON COMMUNITY SCHOOLS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the Years Ended June 30,

	2015				(As restated) 2014			
	Program	**Management and General**	**Fundraising**	**Total**	**Program**	**Management and General**	**Fundraising**	**Total**
Salaries and benefits	$ 5,123,207	$ 1,044,069	$ 90,000	$ 6,257,276	$ 5,268,281	$ 803,556	$ 29,554	$ 6,101,391
Instructional services	72,196	-	-	72,196	86,033	-	-	86,033
Information technology	30,654	-	-	30,654	34,358	-	-	34,358
Accounting services	-	39,119	-	39,119	-	88,144	-	88,144
Other outside services	476,013	132,215	62,490	670,718	326,812	188,128	1,115	516,055
Course materials/supplies	90,706	-	-	90,706	98,052	-	-	98,052
Food	347,436	-	-	347,436	305,646	-	-	305,646
Travel and entertainment	2,273	342	-	2,615	46,983	1,124	-	48,107
Vehicle/transportation expense	16,080	-	-	16,080	12,404	-	-	12,404
Rent and facilities	765,979	-	-	765,979	833,437	-	-	833,437
Depreciation and amortization	365,561	65,525	-	431,086	400,252	58,651	-	458,903
Interest expense	610,650	109,529	-	720,179	673,218	98,676	-	771,894
Insurance	-	70,834	-	70,834	-	92,032	-	92,032
Advertising expenses	12,368	-	4,072	16,440	13,931	-	6,615	20,546
Small equipment purchases	-	-	-	-	29,477	-	-	29,477
TOTAL	$ 7,913,123	$ 1,461,633	$ 156,562	$ 9,531,318	$ 8,128,884	$ 1,330,311	$ 37,284	$ 9,496,479

See accompanying notes to the financial statements.

COMPLIANCE SECTION

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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, 2015, 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 September 27, 2016.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in item 2015-01 in the accompanying schedule of findings and questioned costs that we consider to be a material weakness.

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 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

Indianapolis, Indiana
September 27, 2016

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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, 2015. 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, 2015.

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 2015-02, 2015-03, 2015-04, and 2015-05. 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. However, as described in the accompanying schedule of findings and quested costs as items 2015-02, 2015-03, 2015-04, and 2015-05, we identified certain deficiencies in internal control over compliance 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

Indianapolis, Indiana
September 27, 2016

IRVINGTON COMMUNITY SCHOOLS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

Federal Grantor/Pass-ThroughGrantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through Indiana Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555*	FY 2014-2015	$ 249,037
	10.555*	FY 2013-2014	11,173
		Total 10.555	260,210
School Breakfast Program	10.553*	FY 2014-2015	39,487
	10.553*	FY 2013-2014	977
		Total 10.553	40,464
Total for Child Nutrition Cluster			300,674
Total for U.S. Department of Agriculture			300,674
U.S. DEPARTMENT OF EDUCATION			
Pass-through Indiana Department of Education:			
Title I Grants to Local Educational Agencies	84.010*	15-9330	585,504
Special Education Grants to States (IDEA, Part B)	84.027	14215-508-PN01	152,851
Improving Teacher Quality State Grants	84.367	14-9330	85,058
Teacher Incentive Fund	84.374*	FY 2014-2015	310,560
		FY 2013-2014	80,520
		Total 84.374	391,080
Total U.S. Department of Education			1,214,493
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,515,167

* *Denotes a major program*

See accompanying notes to the schedule of expenditures of federal awards.

NOTE A – BASIS OF PRESENTATION

The Schedule of Expenditures and Federal Awards (the Schedule) includes the federal grant activity of Irvington Community Schools, Inc. and is presented on the accrual basis of accounting. The information on 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 this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE B – 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.

IRVINGTON COMMUNITY SCHOOLS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	*unmodified*
Internal control over financial reporting:	
Material weakness(es) identified?	X Yes ___ No
Significant deficiency (ies) identified?	___ Yes X None reported
• Noncompliance material to financial statements noted?	___ Yes X No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	___ Yes X No
Significant deficiency (ies) identified?	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, Section .510(a)?	X Yes ___ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I, Grants to Local Education Agencies
10.553, 10.555	Child Nutrition Cluster
84.374	Teacher Incentive Fund

Dollar threshold used to distinguish between type A type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	___ Yes X No

Section II – Financial Statement Findings

Finding 2015-01: Material Weakness - Material Adjusting Entries

Condition: We identified material financial statement adjustments affecting the current and prior year financial statements. These entries included recording adjustments for the accounts receivable, accounts payable, and 403b accrual balances. In addition, there were adjustment to correct errors in recording contributed rent receivable and bond premiums.

Criteria: The School's general ledger should support all information in the annual financial statements. Internal controls should be in place to record all material transactions in the books and records of the School. If material audit adjustments are proposed, by definition, a material weakness has occurred. It is the responsibility of management to record all transactions necessary to generate financial statements and disclosures in accordance with generally accepted accounting principles.

Effect: The financial statements contained material misstatements which were not identified prior to the start of the audit.

Cause: Due to turnover in the School's finance department, personnel did not reconcile the subsidiary ledgers to the general ledger in a timely manner which resulted in adjustments to the accounts during the course of the audit.

Questioned Costs: N/A

Repeat Finding: Yes; 2014-002

Recommendation: We recommend management review current controls and procedures in place to ensure accounts are reconciled to the general ledger in a timely manner.

Management's Corrective Action: The School will improve their accounting procedures to assure the various conditions that resulted in material financial statement adjustments will not occur again. The School has made changes to the staff including the senior management previously responsible for managing these items. The School has implemented new policies and procedures in accordance with industry best practices.

These processes have been implemented to assure financial information is promptly communicated to the contracted accountants, account balances are reconciled in a timely manner, and a knowledgeable member of the management team regularly reviews the financial statements to assure accuracy and that the financials reflect all significant transactions.

Section III – Federal Award Findings and Questioned Costs

Finding 2015-02: Significant Deficiency – Failure to complete audit in Accordance with 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 years ended June 30, 2014 and 2015 was not completed 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.

Effect: The School is not in compliance with OMB Circular A-133 for the years ended June 30, 2014 and 2015.

Cause of the Condition: The School had engaged a certified public accountant to conduct the June 30, 2014 and 2015 audit as required by OMB Circular A-133. However, during the 2015 audit, we noted the 2014 audit was not completed in accordance with the timeframe required by OMB Circular A-133. The completion of the 2015 audit was delayed due to turnover of the School's finance department personnel and as a result, the audit was not completed within the required timeframe.

Questioned Costs: N/A

Repeat Finding: Yes; 2014-004

Recommendation: We recommend management review the requirements of OMB Circular A-133 and the Uniform Grant Guidance to ensure the June 30, 2016 is completed in accordance with the applicable guidance.

Management's Corrective Action: The School has hired a new Director of Finance and Operations who will assure that the audit is completed within the required timeframe.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2015-03: Significant Deficiency

CFDA #10.553, 10.555 Child Nutrition Cluster and #84.374 Teacher Incentive Fund

Condition: Documentation supporting expenditures charged to the federal programs could not be located.

Criteria: OMB Circular A-122 establishes standards for determining costs for Federal awards carried out through grants. To be allowable under Federal awards, costs must be adequately documented.

Effect: Costs could be charged to the grant that are not grant eligible.

Cause of the Condition: Due to turnover in the finance department, management could not locate supporting documentation for 7 of 40 expenditures selected for audit related to CFDA #84.374 and for 1 of 40 expenditures related to CFDA #10.553, 10.555 Cluster.

84.374	Teacher Incentive Fund	$ 36,721
10.553, 10.555	Child Nutrition Cluster	$ 70

Repeat Finding: No

Recommendation: We recommend management review the processes and controls related to the retention of documentation supporting costs charged to federal programs. Documentation for all expenditures should be maintained in sufficient detail in order to support the costs charged to the federal program.

Management's Corrective Action: To remedy these issues, the School has modified their processes and implemented procedures both internally and with our external accountants in order to provide evidence of all expenditures and assure all submissions are accurate, timely and are within the approved annual budget limits.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2015-04: Significant Deficiency

CFDA #: 84.374 Teacher Incentive Fund

Condition: All expenditure reports surrounding the Federal award lacked evidence of timely submission.

Criteria: OMB Circular A-133/2 CFR part 200, subpart F, *Compliance Supplement*, section L. Reporting, establishes standards requiring expenditure and/or performance reports be submitted on a timely basis. For CFDA #84.374, timely filing is considered by the 1st and 15th day of the month immediately after the period end. Evidence supporting the timely filing must be present to determine compliance.

Effect: The Federal program could suspend funding.

Cause of the Condition: The expenditure reports for the reporting periods during the year ended June 30, 2015 lacked evidence of timely submission. This was due to the turnover in School personnel who were responsible for the submission of these reports.

Questioned Costs: N/A

Repeat Finding: No

Recommendation: We recommend management monitor the processes surrounding retention of evidence of timely submission of required reports.

Management's Corrective Action: To remedy these issues, the School has modified their processes and implemented procedures both internally and with our external accountants in order to provide evidence of all expenditures and assure all submissions are accurate, timely and are within the approved annual budget limits.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2015-05: Significant Deficiency

CFDA #84.010 Title I, Grants to Local Education Agencies

Condition: Total amount submitted to the Federal agency for expenditure reimbursements exceeded actual costs incurred during the year ended June 30, 2015.

Criteria: OMB Compliance Supplement, Allowable Costs/Cost Principles, and Circular A-122, *Cost Principles for Non-Profit Organizations*, establishes cost accounting principles associated with the administration of Federal awards and standards for determining allowable costs. To be allowable under Federal awards, costs must be adequately documented.

Effect: The Federal program could suspend funding or request reimbursement of funding.

Cause of the Condition: Management provided support for all costs incurred during the year ended June 30, 2015. Total cost incurred was less than total cost reimbursement requests submitted to the Federal agency.

Questioned Costs: $17,284

Repeat Finding: No

Recommendation: We recommend management monitor actual expenditures incurred for the Federal program and submit claims based on actual expenditures incurred for the period.

Management's Corrective Action: To remedy these issues, the School has modified their processes and implemented procedures both internally and with our external accountants in order to provide evidence of all expenditures and assure all submissions are accurate, timely and are within the approved annual budget limits.

Section IV – Prior Period Follow Up

Prior Finding	Condition	Status
2014-001	A prior period adjustment was necessary in order to correct the prior year's numbers	Not Repeated
2014-002	Material adjusting entries were recorded during the audit	Repeated – 2015-01
2014-003	A number of accounts payable had to be written off	Not Repeated
2014-004	The School did not complete the audit within the deadline required by OMB Circular A-133	Repeated – 2015-02

OTHER INFORMATION

IRVINGTON COMMUNITY SCHOOLS, INC.

OTHER REPORT

For the Year Ended June 30, 2015

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.