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March 10, 2017

Charter School Board
Irvington Community Schools, Inc.
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 Irvington Community Schools, Inc., 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.

We call your attention to the Emphasis of Matter Regarding Failure to Comply with Debt Covenants paragraph included in the Independent Auditor's Report and further detailed in Note 7.

In addition to the report presented herein, a Supplemental Audit Report for Irvington Community Schools, 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, 2016 and 2015

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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. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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

Failure to Comply with Debt Covenants

As noted in Note 7, for the year ended June 30, 2016 , Irvington Community Schools, Inc. was not in compliance with certain financial covenants outlined in the bond agreement of their bond holders.

Other Matter

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, 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
January 27, 2017

FINANCIAL STATEMENTS

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30,

	2016	2015
ASSETS		
Cash and cash equivalents	$ 46,554	$ 70,408
Grants receivable	198,051	22,801
Prepaid expense	89,017	112,912
Property and equipment, net	7,015,666	6,636,524
Deposits	-	1,707
Contributions receivable	344,000	344,000
Deposits with bond trustee	1,215,875	1,218,006
TOTAL ASSETS	$ 8,909,163	$ 8,406,358
LIABILITIES AND NET ASSETS		
Accounts payable	$ 392,704	$ 593,368
Line of credit	40,225	172,073
Accrued interest	337,628	341,423
Deferred income	-	25,009
Accrued expenses	359,888	513,389
Obligations under capital leases	27,980	55,927
Loan payable	907,000	-
Note payable	75,918	97,330
	2,141,343	1,798,519
Bonds payable	8,844,362	9,006,013
Less unamortized debt issuance costs	336,970	412,947
Bonds payable less unamortized bond issuance costs	8,507,392	8,593,066
Total liabilities	10,648,735	10,391,585
NET ASSETS (DEFICIT)		
Unrestricted net deficit	(2,083,572)	(2,329,227)
Temporarily restricted	344,000	344,000
TOTAL NET DEFICIT	(1,739,572)	(1,985,227)
TOTAL LIABILITIES AND NET DEFICIT	$ 8,909,163	$ 8,406,358

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30,

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT		
State support	$ 6,651,041	$ 6,731,966
Grant revenue	1,927,129	1,577,234
In-kind contributions	537,719	558,506
School lunch program	82,271	100,297
Student and textbook fees	195,326	163,943
Before and after school programs	12,489	46,835
Contributions and donations	18,596	36,218
Rental revenue	14,135	16,673
Other revenue	156,632	143,160
Total revenues and support	9,595,338	9,374,832
PROGRAM AND SUPPORTING SERVICE EXPENSES		
Program services	7,767,265	7,858,435
Supporting services:		
General and administrative	1,516,590	1,516,321
Fundraising	65,828	156,562
Total expenses	9,349,683	9,531,318
Increase (decrease) in unrestricted net assets	245,655	(156,486)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	-	-
INCREASE (DECREASE) IN NET ASSETS	245,655	(156,486)
NET ASSETS, BEGINNING OF YEAR	(1,985,227)	(1,828,741)
NET ASSETS, END OF YEAR	$ (1,739,572)	$ (1,985,227)

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

		2016		2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$	245,655	$	(156,486)
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation and amortization		311,022		431,086
Amortization of bond issuance costs		75,977		-
Bad debt		-		41,497
Decrease (increase) in:				
Accounts receivable		-		(25,969)
Grants receivable		(175,250)		34,138
Prepaid expense		23,895		(107,207)
Deposits		1,707		(1,707)
Increase (decrease) in:				
Accounts payable		(200,664)		(130,143)
Accrued interest		(3,795)		24,897
Deferred revenue		(25,009)		249,860
Accrued expenses		(153,501)		(4,095)
Net cash and cash equivalents provided by operating activities		100,037		355,871
CASH FLOWS FROM INVESTING ACTIVITIES				
Change in deposits with bond trustee		2,131		(1,088)
Purchases of property and equipment		(690,164)		(85,151)
Net cash and cash equivalents (used) by investing activities		(688,033)		(86,239)

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

(Continued)	**2016**	**2015**
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit borrowings	$ -	$ 34,111
Line of credit repayments	(131,848)	(99,249)
Capital lease repayments	(27,947)	(35,315)
Note payable borrowings	907,000	-
Long term debt repayments	(183,063)	(147,865)
Net cash and cash equivalents provided (used) by financing activities	564,142	(248,318)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23,854)	21,314
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	70,408	49,094
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 46,554	$ 70,408
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Purchases of property and equipment in accounts payable	$ 71,537	$ -
Assets acquired under capital leases	$ -	$ 20,612
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 714,031	$ 724,274

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, 2016 and 2015.

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015.

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 $537,719 and $558,506 of in-kind contributions during the year ended June 30, 2016 and 2015, respectively, primarily consisting of rent for the School's building of approximately $275,000 in 2016 and 2015, and nursing services of approximately $247,500 in 2016 and 2015.

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, 2016 and 2015 was $2,420 and $16,440, 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 which may at times exceed federally insured limits. At June 30, 2016, the School's cash accounts exceeded federally insured limits by approximately $69,000. There were no cash amounts in excess of Federal Deposit Insurance Corporation insured limits at June 30, 2015. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Business Risk

Operating Funds from the Indiana Department of Education amounted to 68% and 72% of the School's support and revenue in June 30, 2016 and 2015, 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties (continued)

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.

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 of ASU No. 2016-01 in fiscal year 2015.

2. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants receivable for the years ended June 30, 2016 and 2015 represented amounts due from the Indiana Department of Education relating to the following grants:

	2016	2015
Child Nutrition	$ 9,668	$ 12,521
School Safety Grant	83,320	-
eLearning	64,350	-
Title I	40,713	10,280
	$ 198,051	$ 22,801

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 contributions receivable amount under the lease agreement was $344,000 as of June 30, 2016 and 2015, respectively. The amount due within one year is $275,200 and the amount due in one to five years is $68,800.

3. PROPERTY AND EQUIPMENT

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

	2016	2015
Furniture and equipment	$ 700,181	$ 664,842
Computer hardware	825,734	524,617
Computer software	119,795	110,685
Leasehold improvements	3,885,303	3,549,616
Books and educational materials	533,014	529,001
Building	3,858,083	3,858,083
Land	556,899	556,899
Vehicles	12,400	12,400
Total property and equipment	10,491,409	9,806,143
Less: Accumulated depreciation	(3,475,743)	(3,169,619)
Total property and equipment, net	$ 7,015,666	$ 6,636,524

Depreciation expense was $311,022 and $355,109 for the years ended June 30, 2016 and 2015, respectively.

4. OPERATING LEASES

The School leases various equipment and facilities under separate operating leases expiring through June 2026. As of June 30, 2016 and 2015, $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, 2016 and 2015.

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

	Amount
2017	$ 52,231
2018	51,364
2019	51,075
2020	49,935
2021	49,935
Thereafter	12,489
	$ 267,029

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 the year ended June 30, 2016. At June 30, 2016 and 2015, the balance of the line of credit was $40,225 and $172,073, 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

403(b) 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. The School may make discretionary pro-rata contributions to the plan. Total contributions to the Plan during 2016 and 2015 were $485,140 and $20,000, respectively. The School has recorded a liability for its contribution to the Plan of $267,587 and $503,711 and is included in accrued expenses as of June 30, 2016 and 2015, respectively.

Pension Plan

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 $121,500 and $104,478 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Bonds Payable in semi - annual installments, including interest computed at 6.09%, through maturity in December 2025 (a)	$ 1,039,526	$ 1,105,993
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)	54,836	150,020
Total Bonds Payable	8,844,362	9,006,013
Note Payable in monthly installments, including interest computed at 3.25%, through maturity in October 2019	75,918	97,330
Common School Loan Payable in semi - annual installments, including interest computed at 1%, through maturity in January 2027	907,000	-
Total Bonds, Notes and Loans Payable	9,827,280	9,103,343
Less: debt issuance costs	(336,970)	(412,947)
Less: current maturities	(236,004)	(180,551)
Total Long-term Debt	$ 9,254,306	$ 8,509,845

(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

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

In 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03 – *Simplifying the Presentation of Debt Issuance Costs.* The ASU states that debt issuance costs should be reported on the balance sheet as a direct deduction from the face amount of debt; previously, such costs were shown as a deferred charge. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, while early adoption is permitted for financial statement that have not been previously issued. The School has elected to early adopt this ASU.

7. LONG-TERM DEBT ACTIVITY (Continued)

For the years ended June 30, 2016 and 2015, the School was not in compliance with all financial covenants outlined in the bond agreement for bonds (b) and (c) above, with the exception of the long-term debt service coverage ratio covenant, which the School met. 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 2/3rds 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 2/3rds 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.

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:

	2016	2015
Bond Principal Fund	$ 96,364	$ 95,010
Bond Interest Fund	338,111	341,596
Bond Reserve Fund	781,400	781,400
	$ 1,215,875	$ 1,218,006

Total debt service requirements of loans payable for school activities as of June 30, 2016 were as follows for the years ending June 30,:

	Total Principal	Total Interest	Total Debt Service
2017	$ 236,004	$ 744,299	$ 980,303
2018	295,697	730,698	1,026,395
2019	310,288	716,235	1,026,523
2020	301,596	701,185	1,002,781
2021	313,776	685,327	999,103
Thereafter	8,369,919	8,211,453	16,581,372
	$ 9,827,280	$ 11,789,197	$ 21,616,477

Total interest expense during the years ended June 30, 2016 and 2015 was $712,147 and $749,327, respectively.

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 the 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 $53,086 and $113,457 as of June 30, 2016 and 2015, respectively. Accumulated amortization of the leased equipment totaled $16,255 and $28,316 as of June 30, 2016 and 2015, respectively. The amortization of these assets under the capital lease is included in depreciation expense.

At June 30, 2016 the required minimum capital lease payments are as follows for the years ended June 30:

2017	$ 20,482
2018	10,241
Total minimum lease payments	30,723
Less Amount representing interest	(2,743)
Present value of future minimum lease payments	27,980
Less current portion of minimum lease payments	(18,680)
LONG-TERM CAPITAL LEASE OBLIGATIONS	$ 9,300

9. SUBSEQUENT EVENT

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through January 27, 2017, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

IRVINGTON COMMUNITY SCHOOLS, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

For the Years Ended June 30,

	2016				2015			
	Program	**Management and General**	**Fundraising**	**Total**	**Program**	**Management and General**	**Fundraising**	**Total**
Salaries and benefits	$ 4,953,858	$ 843,822	$ -	$ 5,797,680	$ 5,123,207	$ 1,044,069	$ 90,000	$ 6,257,276
Instructional services	192,042	-	-	192,042	72,196	-	-	72,196
Information technology	49,105	-	-	49,105	30,654	-	-	30,654
Accounting services	-	242,286	-	242,286	-	39,119	-	39,119
Other outside services	433,263	138,731	65,828	637,822	476,013	132,215	62,490	670,718
Course materials/supplies	123,563	-	-	123,563	90,706	-	-	90,706
Food	314,095	-	-	314,095	347,436	-	-	347,436
Travel and entertainment	4,653	113	-	4,766	2,273	342	-	2,615
Vehicle/transportation expense	21,585	-	-	21,585	16,080	-	-	16,080
Rent and facilities	639,959	112,934	-	752,893	651,082	114,897	-	765,979
Depreciation and amortization	264,369	46,653	-	311,022	365,561	65,525	-	431,086
Interest expense	668,281	117,932	-	786,213	610,650	109,529	-	720,179
Insurance	79,667	14,059	-	93,726	60,209	10,625	-	70,834
Advertising expenses	2,420	-	-	2,420	12,368	-	4,072	16,440
Small equipment purchases	20,405	-	-	20,405	-	-	-	-
Other expense	-	60	-	60	-	-	-	-
TOTAL	$ 7,767,265	$ 1,516,590	$ 65,828	$ 9,349,683	$ 7,858,435	$ 1,516,321	$ 156,562	$ 9,531,318

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, 2016, 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 January 27, 2017.

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 deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001, to be a material weakness.

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 the accompanying schedule of findings and questioned costs as item 2016-002, 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*.

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
January 27, 2017

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

To the Board of Directors of
Irvington Community Schools, Inc.

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004. 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, as described in the accompanying schedule of findings and quested costs as item 2016-003 and 2016-004 we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

Irvington Community Schools, Inc.'s response to the internal control over compliance finding 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sikich LLP

Indianapolis, Indiana
January 27, 2017

IRVINGTON COMMUNITY SCHOOLS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

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 2015-2016	$ 274,703
School Breakfast Program	10.553	FY 2015-2016	39,965
Total for Child Nutrition Cluster			314,668
Total for U.S. Department of Agriculture			314,668
U.S. DEPARTMENT OF EDUCATION			
Pass-through Indiana Department of Education			
Title I Grants to Local Educational Agencies	84.010*	2014-2015	28,184
		2015-2016	566,784
		Total 84.010	594,968
Special Education Grants to States (IDEA, Part B)	84.027	2015-2017	154,394
Improving Teacher Quality State Grants	84.367	14-9330	83,029
Total U.S. Department of Education			832,391
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,147,059

* *Denotes a major program*

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

IRVINGTON COMMUNITY SCHOOLS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures and Federal Awards (the Schedule) includes the federal award activity of Irvington Community Schools, Inc. under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – Non-Cash Assistance and Loans

There was no non-monetary assistance reported in the Schedule for food commodities, insurance, loans, or loan guarantees for the year ended June 30, 2016.

IRVINGTON COMMUNITY SCHOOLS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

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?	X	Yes	___	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 2 CFR 200.516(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

Dollar threshold used to distinguish between type A type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	___	Yes	X	No

Section II – Financial Statement Findings

Finding 2016-001: 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 to correct errors in recording accounts payable and contributed nursing services.

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 of the Condition: 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 accounts during the course of the audit.

Questioned Costs: N/A

Repeat Finding: Yes; 2015-01

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 Response: The School will improve its accounting procedures to assure the various conditions that resulted in material financial statement adjustments will not occur again subsequent to this audit. The School has made changes to the staff and senior management previously responsible for managing these items. We will work with our new external accountants and internal staff to record liabilities and operating expenses correctly and in the period they were incurred.

Processes will be 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 management regularly reviews the financial statements to assure correctness and that they reflect all significant transactions.

Section II – Financial Statement Findings (Continued)

Finding 2016-002: Significant Deficiency – Lack of indication of review and approval

Condition: There were instances where there was no indication that an authorized individual had reviewed or approved vendors' invoices or payroll time records prior to payment.

Criteria: The supporting documents should bear the approval for payment from an authorized individual.

Effect: Requiring a supervisor's approval of vendor invoices would help ensure the payments are for valid business purposes. The review of payroll time cards would determine that employees have recorded time only when it had actually been worked and that the allocation of time by category was appropriate and reasonable.

Cause of the Condition: Due to turnover in the School's personnel, the policy of review and approval was not consistently followed for invoices and time records.

Questioned Costs: N/A

Recommendation: We recommend supervisor's document their review and approval by initialing and dating the invoices and/or payroll time cards.

Management's Response: The School has made changes to the staff and senior management previously responsible for managing these items. The School has hired a new Director of Finance and Operations who will assure that the invoices and payroll are approved prior to disbursement and that this approval is documented.

Section III – Federal Award Findings and Questioned Costs

Finding 2016-003: Significant Deficiency

CFDA #84.010 Title I, Grants to Local Education Agencies

Condition: There were instances where there was no indication that an authorized individual had reviewed or approved vendors' invoices or payroll time records prior to payment.

Criteria: Uniform Grant Guidance 2 CFR 200 establishes standards for determining and approving costs for Federal awards carried out through grants. To be allowable under Federal awards, costs must be approved by an appropriate individual.

Effect: Requiring a supervisor's approval of vendor invoices would help ensure the payments are for valid business purposes. The review of payroll time cards would determine employees have recorded time only when it had actually been worked and the allocation of time by category was appropriate and reasonable.

Cause of the Condition: Due to turnover in the School's personnel, the policy of review and approval was not consistently followed for invoices and time records for 25 of 40 expenditures selected for testing.

Questioned Costs: $2,906

Recommendation: We recommend supervisor's document their review and approval by initialing and dating the invoices and/or payroll time cards.

Management's Response: The School has hired a new Director of Finance and Operations who will assure that the invoices and payroll are approved prior to disbursement and that this approval is documented.

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

Finding 2016-004: Significant Deficiency

CFDA #84.010 Title I, Grants to Local Education Agencies

Condition: The School submitted reimbursement requests from October 2015 through January 2016 which were based on budgeted expenditures instead of actual expenditures of the Title I program. The initial reimbursement requests from this period were $80,602 more than the actual eligible expenditures incurred during that time period. The School corrected the excess reimbursement requests in February 2016 and subsequent requests through the end of the fiscal year ended June 30, 2016 were based on actual expenditures of the program.

Criteria: Uniform Grant Guidance 2 CFR 200 establishes cost principles associated with the administration of Federal awards and standards for determining allowable costs. To be allowable under Federal awards, costs must be based on actual expenditures of the program. Budget estimates do not qualify as support for charges to awards.

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

Cause of the Condition: Due to turnover in the School's personnel, the procedure for submitting reimbursement requests based on actual expenditures was not consistently followed during the year.

Questioned Costs: $0

Repeat Finding: Yes; 2015-05

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 Response: The School has modified their processes and implement procedures both internally and with our external accountants in order to provide evidence of all expenditures prior to submission for reimbursement as well as assuring all submissions are accurate, timely and are within the approved annual budget limits.

Section IV – Prior Period Follow Up

Prior Finding	Condition	Status
2015-01	Material adjusting entries were recorded during the audit that affected 2015 and restated 2014.	Repeated– 2016-001
2015-02	The School did not complete the audit within the deadline required by OMB Circular A-133.	Not Repeated
2015-03	Documentation supporting expenditures charged to the federal programs could not be located.	Not Repeated
2015-04	Expenditure reports surrounding the federal award lacked evidence of timely submission.	Not Repeated
2015-05	Amounts submitted to the Federal agency for expenditure reimbursements exceeded actual costs.	Repeated– 2016-004

OTHER INFORMATION

IRVINGTON COMMUNITY SCHOOLS, INC.

OTHER REPORT

For the Year Ended June 30, 2016

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.