



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B47174

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

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

November 16, 2016

Charter School Board
Indiana Connections Academy
6640 Intech Blvd #250
Indianapolis, IN 46278

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan PC, 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 do not represent fairly the financial condition of the Indiana Connections Academy, 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 Basis for Qualified Opinion in the audit report.

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

INDIANA CONNECTIONS ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets	4
Statements of Functional Expenses.....	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 10
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards.....	11
Notes to the Schedule of Expenditures of Federal Awards.....	12
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13 - 14
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE.....	15 - 16
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	17



Independent Auditors' Report

The Board of Directors
Indiana Connections Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Connections Academy, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and change in net assets, functional expenses, 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.

Auditors' 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. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

www.cpadonovan.com

Avon Office | 5151 E. U.S. HWY 36 Avon, IN 46123 | 317.745.6411

Indianapolis Office | 9245 North Meridian Street, Ste. 302 Indianapolis, IN 46260 | 317.844.8300

Basis for Qualified Opinion

As presented in Note 2 to the financial statements, in 2013, the Indiana Legislature passed amendments to the Indiana Charter Schools Act that resulted in the suspension of funding in the amount of \$6,859,281. The School believes that this was not the intent of the legislation and has appealed this result with its elected officials, anticipating resolution by 2017. The School believes that it will ultimately be successful in restoring this income through legislative channels, and continues to reflect this amount as a receivable on its statements of financial position as of June 30, 2016 and 2015. Accounting principles generally accepted in the United States of America require that a potential gain that is contingent upon a future event be recognized when the amount is realized. If the School were to recognize this gain contingency when realized, a write down of receivables in the amount of \$3,848,885 would be required as of June 30, 2016 and 2015. Unrestricted net assets as of June 30, 2016 and 2015 would be reduced by the same amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Connections Academy, Inc. as of June 30, 2016 and 2015, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 Schedule of Expenditures of Federal Awards is 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 November 4, 2016 on our consideration of Indiana Connections Academy, 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 Indiana Connections Academy, Inc.'s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana
November 4, 2016

INDIANA CONNECTIONS ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,866,274	\$ 3,466,306
State tuition support receivable	3,848,885	3,848,885
Grants receivable	842,168	288,718
Other receivables	200	1,080
Prepaid expenses	<u>-</u>	<u>16,090</u>
<i>Total current assets</i>	<u>9,557,527</u>	<u>7,621,079</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	3,132	3,132
Furniture and equipment	78,950	78,950
Less: accumulated depreciation	<u>(37,866)</u>	<u>(25,314)</u>
<i>Property and equipment, net</i>	<u>44,216</u>	<u>56,768</u>
TOTAL ASSETS	<u><u>\$ 9,601,743</u></u>	<u><u>\$ 7,677,847</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Connections Academy of Indiana, LLC	\$ 8,971,088	\$ 7,124,868
Accounts payable and accrued expenses	619,746	506,761
Refundable advances	<u>-</u>	<u>35,398</u>
<i>Total current liabilities</i>	9,590,834	7,667,027
NET ASSETS, UNRESTRICTED	<u>10,909</u>	<u>10,820</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,601,743</u></u>	<u><u>\$ 7,677,847</u></u>

See independent auditors' report and accompanying notes to the financial statements

INDIANA CONNECTIONS ACADEMY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
State education support	\$ 23,152,821	\$ 19,862,225
Grant revenue	1,210,721	1,236,248
Other income	28	658
	<u>24,363,570</u>	<u>21,099,131</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	22,073,700	19,105,818
Management and general	2,289,781	1,992,450
	<u>24,363,481</u>	<u>21,098,268</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	89	863
 NET ASSETS, BEGINNING OF YEAR	<u>10,820</u>	<u>9,957</u>
 NET ASSETS, END OF YEAR	<u>\$ 10,909</u>	<u>\$ 10,820</u>

See independent auditors' report and accompanying notes to the financial statements

INDIANA CONNECTIONS ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>			<u>2015</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 5,726,894	\$ -	\$ 5,726,894	\$ 5,190,372	\$ -	\$ 5,190,372
Employee benefits	1,656,420	-	1,656,420	1,379,189	-	1,379,189
Staff development and recruitment	329,963	6,819	336,782	267,047	5,625	272,672
Authorizer oversight fees	-	519,136	519,136	-	412,015	412,015
Professional services	360,883	320,103	680,986	324,008	260,737	584,745
School administration and support services	3,177,530	1,317,975	4,495,505	2,561,438	1,197,119	3,758,557
Classroom and office supplies	6,791,374	-	6,791,374	5,987,253	-	5,987,253
Technology	3,184,226	-	3,184,226	2,774,668	-	2,774,668
Testing	563,524	-	563,524	404,341	-	404,341
Occupancy	159,560	-	159,560	141,953	-	141,953
Travel	19,921	-	19,921	22,959	-	22,959
Depreciation	12,552	-	12,552	12,818	-	12,818
Equipment	15,780	-	15,780	11,241	-	11,241
Repairs and maintenance	1,453	-	1,453	2,723	-	2,723
Insurance	-	8,482	8,482	-	8,364	8,364
Other	73,620	117,266	190,886	25,808	108,590	134,398
<i>Total functional expenses</i>	<u>\$ 22,073,700</u>	<u>\$ 2,289,781</u>	<u>\$ 24,363,481</u>	<u>\$ 19,105,818</u>	<u>\$ 1,992,450</u>	<u>\$ 21,098,268</u>

See independent auditors' report and accompanying notes to the financial statements

INDIANA CONNECTIONS ACADEMY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 89	\$ 863
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	12,552	12,818
Changes in certain assets and liabilities:		
Grants receivable	(553,450)	3,112
Other receivables	880	(343)
Prepaid expenses	16,090	(3,722)
Due to Connections Academy of Indiana, LLC	1,846,220	235,776
Accounts payable and accrued expenses	112,985	20,289
Refundable advances	(35,398)	35,398
	<u>1,399,968</u>	<u>304,191</u>
<i>Net cash provided by operating activities</i>	1,399,968	304,191
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>-</u>	<u>(1,420)</u>
NET CHANGE IN CASH	1,399,968	302,771
CASH, BEGINNING OF YEAR	<u>3,466,306</u>	<u>3,163,535</u>
CASH, END OF YEAR	<u>\$ 4,866,274</u>	<u>\$ 3,466,306</u>

See independent auditors' report and accompanying notes to the financial statements

INDIANA CONNECTIONS ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Indiana Connections Academy, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a virtual public charter school established under Indiana Code 20-24 and sponsored by Ball State University. The School, which previously operated as a pilot program established by Rural Community Schools, Inc., commenced operations as a separate entity as of January 1, 2012. The School is available to students residing in the State of Indiana, and provides educational instruction to approximately 4,000 students in grades kindergarten through twelve.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to funding received by other public schools. Funding from the State of Indiana is based on enrollment, and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

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

Accounts Receivable – Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary with regard to such receivables.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$1,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Leasehold and improvements	3 to 7 years
Furniture and equipment	5 to 7 years

Taxes on Income – Indiana Connections Academy, Inc. has received a determination from the U.S Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the periods ended June 30, 2016 and 2015, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

INDIANA CONNECTIONS ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years after 2012 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 4, 2016, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

NOTE 2 - LEGISLATIVE CHANGES

Pursuant to IC §20-49-7, the State Board of Education was authorized to advance funds to charter schools via the State's Common School Fund thereby allowing charter schools to finance operations for periods when adequate tuition support was not received. These cash advances were made to charter schools through executed loan agreements with repayment terms that were defined in the statute.

In April 2013, the Indiana General Assembly repealed IC §20-49-7 with the passing of House Bill 1001 and established an appropriation to forgive charter schools for cash advances previously made through the Common School Fund. The School obtained a loan in the amount of \$3,594,503 in 2013, and subsequently repaid \$599,084. The School applied for and was forgiven from repaying the balance of the remaining indebtedness plus accrued interest of \$3,010,396 as of June 30, 2013. An allowance has been established against the School's related accounts receivable balance in the amount of the loan forgiven (See Note 3).

In the same session, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. As of June 30, 2013, total funding remaining due to the School was \$6,859,281. Effective July 1, 2013, school funding is paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year.

The Indiana legislature has not yet addressed the remaining tuition support in the amount of \$6,859,281 due to the School as of June 30, 2013. Members of the Indiana General Assembly have been informed that a number of charter schools remain with an accounts receivable balance and those charter schools believe that the State remains obligated for amounts not reimbursed through the provisions of House Bill 1001. Legislative and legal efforts are being made to resolve any outstanding obligations of the State. The School believes that these funds are owed and are realizable.

INDIANA CONNECTIONS ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 3 - ACCOUNTS RECEIVABLE

The School's accounts receivable balance consists primarily of amounts due from the State of Indiana for the operating periods in which State funding has not been received. As of June 30, 2013, the State forgave the remaining balance of the School's operating loan made through the Common School Fund. As the loan was provided to finance the School's operations when revenue was not received, the School has established an allowance against the accounts receivable balance in the amount forgiven.

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30:

	<u>2016</u>	<u>2015</u>
Tuition support	\$ 6,267,272	\$ 6,267,272
Special education grant	<u>592,009</u>	<u>592,009</u>
	6,859,281	6,859,281
Less: allowance for Common School loan forgiven	<u>(3,010,396)</u>	<u>(3,010,396)</u>
	<u>\$ 3,848,885</u>	<u>\$ 3,848,885</u>

NOTE 4 - RETIREMENT PLANS

School personnel are eligible to participate in a 401(k) retirement plan sponsored by Connections Education, LLC. Under the plan, the School will match 100% of employee contributions up to 3% of compensation and 50% of employee contributions for the next 3% of compensation. The School may also make additional discretionary contributions. No discretionary contributions were made in 2016 and 2015. Retirement plan expense for the years ended June 30, 2016 and 2015 was \$66,268 and \$72,976, respectively.

NOTE 5 - LEASES

The School leases its operating facilities as well as certain items of office equipment under operating leases. Expense under operating leases for the years ended June 30, 2016 and 2015 was \$159,560 and \$141,953, respectively. Future minimum lease obligations for non-cancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

2017	\$ 154,978
2018	157,860
2019	13,175

INDIANA CONNECTIONS ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 6 - COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was \$519,136 and \$412,015 for the years ended June 30, 2016 and 2015, respectively. The charter remains in effect until June 30, 2019, and is renewable thereafter by mutual consent.

The School has contracted with Connections Academy of Indiana, LLC to provide instructional materials and services as well as administrative and technology services. As compensation for these services, the School negotiates a schedule of fees for services for each year of the term of agreement, which remains in effect until June 30, 2019. Such fees were as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Enrollment/unit based fees	\$ 11,257,917	\$ 9,820,240
Revenue based fees	5,613,921	4,693,197
	<u>16,871,838</u>	<u>14,513,437</u>
Less: discretionary fee reduction	<u>(1,894,000)</u>	<u>(1,600,500)</u>
	<u>\$ 14,977,838</u>	<u>\$ 12,912,937</u>

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services in a virtual school environment to families residing 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, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2016 and 2015, substantially all of the receivable balance was due from the State of Indiana. In addition, cash deposits are maintained at PNC Bank, and are insured up to the FDIC insurance limit.

NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program services and management and general activities.

INDIANA CONNECTIONS ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	16-9905	\$ 555,022
Special Education Cluster			
Special Education - Grants to States	84.027	15216-557-PN01	488,530
Improving Teacher Quality State Grants	84.367	15-9905	<u>87,417</u>
Total federal awards expended			\$ <u><u>1,130,969</u></u>

The accompanying notes are an integral part of this schedule.

INDIANA CONNECTIONS ACADEMY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Indiana Connections Academy, Inc. (the "School") under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented 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). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

NOTE 2 - 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Indiana Connections Academy, Inc.

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 Indiana Connections Academy, Inc. (the "School"), 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 November 4, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

www.cpadonovan.com

Avon Office | 5151 E. U.S. HWY 36 Avon, IN 46123 | 317.745.6411

Indianapolis Office | 9245 North Meridian Street, Ste. 302 Indianapolis, IN 46260 | 317.844.8300

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, looped initial "D".

Indianapolis, Indiana
November 4, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

The Board of Directors
Indiana Connections Academy, Inc.

Report on Compliance for Each Major Federal Program

We have audited Indiana Connections Academy, Inc.'s (the "School") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2016. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School'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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Indiana Connections Academy, 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.

Report on Internal Control over Compliance

Management of Indiana Connections Academy, 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 the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 the School'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.

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.

DONOVAN

A handwritten signature in blue ink that reads "DONOVAN". The letters are cursive and slightly slanted to the right.

Indianapolis, Indiana
November 4, 2016

INDIANA CONNECTIONS ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Qualified Opinion
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Type of auditors' 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)?	No
Identification of major programs:	
<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster Grants to Local Educational Agencies
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

No matters were reportable.

III. Federal Award Findings and Questioned Costs

No matters were reportable.