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December 12, 2017

Charter School Board
Irvington Community Schools
5751 E University Ave.
Indianapolis, IN 46219

We have reviewed the report prepared by Irvington Community Schools, Inc. and opined upon by Sikich LLP, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Irvington Community Schools, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Sikich LLP prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner



**IRVINGTON COMMUNITY SCHOOLS, INC.
MARION COUNTY, INDIANA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Years Ended June 30, 2017 and 2016



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IRVINGTON COMMUNITY SCHOOLS, INC.
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INDEPENDENT AUDITOR'S REPORT

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

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017, Irvington Community Schools, Inc. was not in compliance with certain financial covenants outlined in the bond agreement of their bond holders.

Restatement

As discussed in Note 9 to the financial statements, the School restated its 2016 financial statements to properly recognize the purchase of the Middle School, to correct deposits with bond trustee, unamortized bond issuance costs, and contributed rent. Our opinion is not modified with respect to these matters.

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 November 16, 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
November 16, 2017

FINANCIAL STATEMENTS

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30,

	2017	(As restated) 2016
ASSETS		
Cash and cash equivalents	\$ 381,379	\$ 46,554
Grants receivable	103,386	198,051
Prepaid expense	93,159	89,017
Property and equipment, net	6,616,037	6,880,694
Contributions receivable	841,005	560,669
Deposits with bond trustee	1,224,788	1,224,545
TOTAL ASSETS	\$ 9,259,754	\$ 8,999,530
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 304,180	\$ 392,704
Line of credit	-	40,225
Accrued interest	333,388	337,628
Accrued expenses	209,883	359,888
Obligations under capital leases	9,828	27,980
Loan payable	861,650	907,000
Note payable	52,558	75,918
	<u>1,771,487</u>	<u>2,141,343</u>
Bonds payable	8,682,145	8,844,362
Less unamortized bond issuance costs	405,443	463,363
Bonds payable less unamortized bond issuance costs	<u>8,276,702</u>	<u>8,380,999</u>
Total liabilities	<u>10,048,189</u>	<u>10,522,342</u>
NET ASSETS (DEFICIT)		
Unrestricted net deficit	(1,629,440)	(2,083,481)
Temporarily restricted	841,005	560,669
TOTAL NET DEFICIT	<u>(788,435)</u>	<u>(1,522,812)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 9,259,754</u>	<u>\$ 8,999,530</u>

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30,

	2017	(As restated) 2016
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT		
State support	\$ 6,711,812	\$ 6,651,041
Grant revenue	1,749,268	1,927,129
In-kind contributions	522,432	537,719
School lunch program	79,098	82,271
Student and textbook fees	146,392	195,326
Before and after school programs	18,877	12,489
Contributions and donations	35,238	18,596
Rental revenue	1,550	14,135
Other revenue	94,445	156,632
Total revenues and support	<u>9,359,112</u>	<u>9,595,338</u>
PROGRAM AND SUPPORTING SERVICE EXPENSES		
Program services	7,305,363	7,787,628
Supporting services:		
General and administrative	1,569,680	1,520,184
Fundraising	30,028	65,828
Total expenses	<u>8,905,071</u>	<u>9,373,640</u>
Increase in unrestricted net assets	454,041	221,698
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	280,336	-
INCREASE IN NET ASSETS	<u>734,377</u>	<u>221,698</u>
Beginning of year, as previously reported	(1,522,812)	(1,985,227)
Restatement	-	240,717
NET DEFICIT, BEGINNING OF YEAR	<u>(1,522,812)</u>	<u>(1,744,510)</u>
NET DEFICIT, END OF YEAR	<u>\$ (788,435)</u>	<u>\$ (1,522,812)</u>

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

	2017	(As restated) 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 734,377	\$ 221,698
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	389,975	361,704
Amortization of bond issuance costs	57,920	57,922
Decrease (increase) in:		
Grants receivable	94,665	(175,250)
Prepaid expense	(4,142)	23,895
Contributions receivable	(280,336)	-
Deposits	-	1,707
Increase (decrease) in:		
Accounts payable	(88,524)	(200,664)
Accrued interest	(4,240)	(3,795)
Deferred revenue	-	(25,009)
Accrued expenses	(150,005)	(153,501)
Net cash and cash equivalents provided by operating activities	<u>749,690</u>	<u>108,707</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in deposits with bond trustee	(243)	(6,539)
Purchases of property and equipment	(125,318)	(690,164)
Net cash and cash equivalents (used) by investing activities	<u>(125,561)</u>	<u>(696,703)</u>

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

(Continued)	2017	(As restated) 2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit repayments	\$ (40,225)	\$ (131,848)
Capital lease repayments	(18,152)	(27,947)
Note payable borrowings	(68,710)	907,000
Long term debt repayments	(162,217)	(183,063)
Net cash and cash equivalents (used) provided by financing activities	(289,304)	564,142
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	334,825	(23,854)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	46,554	70,408
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 381,379	\$ 46,554
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Purchases of property and equipment in accounts payable	\$ -	\$ 71,537
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 694,727	\$ 705,361

See accompanying notes to financial statements.

IRVINGTON COMMUNITY SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years ended June 30, 2017 and 2016

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. For the year ended June 30, 2017, there were fees paid to the Sponsor of approximately \$52,000. There were no fees paid to the Sponsor for the year ended June 30, 2016.

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 (GAAP).

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, 2017 and 2016, the School had \$841,005 and \$560,669, respectively, of 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, 2017 and 2016, the School had no permanently restricted net assets.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

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.

The School maintains its cash and cash equivalents at two financial institutions which, at times, may exceed federally insured limits. At June 30, 2017 and 2016 the balance of deposits exceeded FDIC limits by approximately \$93,000 and \$69,000, respectively.

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, 2017 and 2016, 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.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$57,920 for the years ended June 30, 2017 and 2016.

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 recorded \$802,768 and \$537,719 of in-kind contributions during the year ended June 30, 2017 and 2016, respectively, primarily consisting of rent for the School's building of approximately \$555,000 in 2017 and \$275,000 in 2016 and nursing services of approximately \$247,500 in 2017 and 2016.

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

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.

Operating funds from the Indiana Department of Education amounted to 72% and 69% of the School's support and revenue for the years ended June 30, 2017 and 2016, 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.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Use of Estimates

The preparation of the financial statements in conformity with GAAP 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, 2017 and 2016 was \$13,849 and \$2,420, 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.

2. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants receivable for the years ended June 30, 2017 and 2016 represented amounts due from the Indiana Department of Education relating to the following grants:

	<u>2017</u>	<u>2016</u>
Child Nutrition	\$ 6,486	\$ 9,668
School Safety Grant	48,242	83,320
eLearning	232	64,350
Title I	48,426	40,713
	<u>\$ 103,386</u>	<u>\$ 198,051</u>

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

2. GRANTS AND CONTRIBUTIONS RECEIVABLE (Continued)

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. Effective September 2017, the School received an updated fair market value of the rent which increased the contribution receivable as of June 30, 2017 by \$280,336. The contributions receivable amount under the lease agreement was \$841,005 and \$560,669 as of June 30, 2017 and 2016, respectively. The amount due within one year is \$672,804 and the amount due in one to five years is \$168,201.

3. PROPERTY AND EQUIPMENT

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

	(As restated)	
	2017	2016
Furniture and equipment	\$ 813,378	\$ 700,181
Computer hardware	832,105	825,734
Computer software	119,190	119,795
Leasehold improvements	3,285,091	3,285,091
Books and educational materials	539,370	533,014
Building and building improvements	4,758,294	4,758,294
Land	418,523	418,523
Vehicles	12,400	12,400
	<hr/>	<hr/>
Total property and equipment	10,778,351	10,653,032
Less: Accumulated depreciation	(4,162,314)	(3,772,338)
	<hr/>	<hr/>
Total property and equipment, net	\$ 6,616,037	\$ 6,880,694

Depreciation expense was \$389,975 and \$361,704 for the years ended June 30, 2017 and 2016, respectively.

4. OPERATING LEASES

The School leases various equipment and facilities under separate operating leases expiring through June 2026. As of June 30, 2017 and 2016, \$330,216 and \$356,528, 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, 2017 and 2016.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

4. OPERATING LEASES (Continued)

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

	<u>Amount</u>
2018	\$ 51,387
2019	49,935
2020	49,935
2021	16,646
2022	1
Thereafter	<u>4</u>
	<u><u>\$ 167,908</u></u>

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 was extended through October 31, 2016, upon which the line of credit was paid off in full. At June 30, 2017 and 2016, the balance of the line of credit was \$0 and \$40,225, 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 was a fixed rate equal to 7.0%.

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 2017 and 2016 were \$324,950 and \$485,140, respectively. The School has recorded a liability for its contribution to the Plan of \$182,546 and \$267,587 and is included in accrued expenses as of June 30, 2017 and 2016, 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 \$85,091 and \$121,500 for the years ended June 30, 2017 and 2016, 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/.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. LONG-TERM DEBT ACTIVITY

Long-term debt included the following at June 30, 2017 and 2016:

	(As restated)	
	2017	2016
Bonds Payable in semi - annual installments, including variable rate interest as noted below, through maturity in December 2025 (a).	\$ 982,145	\$ 1,039,526
Bonds Payable in semi - annual installments, including interest computed at 7.75%, through maturity in July 2023 (b)	990,000	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
Total Bonds Payable	8,682,145	8,844,362
Note Payable in monthly installments, including interest computed at 4.25%, through maturity in October 2019	52,558	75,918
Common School Loan Payable in semi - annual installments, including interest computed at 1%, through maturity in January 2027	861,650	907,000
Total Bonds, Notes and Loans Payable	9,596,353	9,827,280
Less: debt issuance costs	(405,443)	(463,363)
Less: current maturities	(285,017)	(236,004)
Total Long-term Debt	<u>\$ 8,905,893</u>	<u>\$ 9,127,913</u>

(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. Interest on the QZABs is a fixed per annum rate of interest adjusted on each Bond Interest Rate Adjustment Date equal to the greater of the FHLB rate plus 400 basis points, 6%, or the QZAB rate. As of June 30, 2017, the interest rate was 6.59%. The bond is collateralized by the building and assignment of rent and lease interest.

(b) Educational Facilities Revenue Bonds, Series 2009. The bonds are collateralized by the building.

(c) Educational Facilities Revenue Bond, Series 2009B – Taxable. The bonds are collateralized by the building.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. LONG-TERM DEBT ACTIVITY (Continued)

For the year ended June 30, 2017, the School was not in compliance with all financial covenants outlined in the bond agreement for bonds (b) 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 2/3^{rds} of the outstanding bonds shall have the right to direct the Trustee of the bonds to require the School to engage a management consultant.

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

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:

	(As restated)	
	2017	2016
Bond Principal Fund	\$ 110,000	\$ 105,034
Bond Interest Fund	333,388	338,111
Bond Reserve Fund	781,400	781,400
	<u>\$ 1,224,788</u>	<u>\$ 1,224,545</u>

Total debt service requirements of loans payable for school activities as of June 30, 2017 were as follows for the years ending June 30,:

	Total Principal	Total Interest	Total Debt Service
2018	\$ 285,017	\$ 730,942	\$ 1,015,959
2019	298,815	716,436	1,015,251
2020	295,330	701,135	996,465
2021	303,776	685,438	989,214
2022	318,329	668,741	987,070
Thereafter	8,095,086	7,552,936	15,648,022
	<u>\$ 9,596,353</u>	<u>\$ 11,055,628</u>	<u>\$ 20,651,981</u>

Total interest expense during the years ended June 30, 2017 and 2016 was \$690,487 and \$701,566, respectively.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

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 as of June 30, 2017 and 2016, respectively. Accumulated amortization of the leased equipment totaled \$26,872 and \$16,255 as of June 30, 2017 and 2016, respectively. The amortization of these assets under the capital lease is included in depreciation expense.

At June 30, 2017 the required minimum capital lease payments are as follows for the years ended June 30:

2018	<u>\$ 11,439</u>
Total minimum lease payments	11,439
Less Amount representing interest	<u>(1,611)</u>
Present value of future minimum lease payments	9,828
Less current portion of minimum lease payments	<u>(9,828)</u>
LONG-TERM CAPITAL LEASE OBLIGATIONS	<u><u>\$ -</u></u>

In July 2017, the School entered into an equipment lease with a total equipment cost of \$95,496 that expires in June 2022 with monthly payments of \$1,998 beginning in July 2017.

9. RESTATEMENT

During 2017, the School discovered that the purchase of the Middle School property had not been properly recorded, leasehold improvements and bond issuance costs had been depreciated over an incorrect time period, and contributions receivable was not properly recorded. As a result, the School recorded a prior period adjustment which increased unrestricted net assets by \$24,048 and increased temporarily restricted net assets by \$216,669 as of July 1, 2015.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

9. RESTATEMENT (Continued)

The 2016 financial statements have been restated as follows:

	Previously Reported	Restated Amount
Statement of financial position		
Property and equipment, net	\$ 7,015,666	\$ 6,880,694
Contributions receivable	344,000	560,669
Deposits with bond trustee	1,215,875	1,224,545
Unamortized bond issuance costs	336,970	463,363
Unrestricted net deficit	2,083,572	2,083,481
Temporarily restricted	344,000	560,669
Statement of activities		
Program and supporting service expenses		
Program services	7,767,265	7,787,628
General and administrative	1,516,590	1,520,184
Statement of cash flows		
Change in net assets	245,655	221,698
Depreciation	311,022	361,704
Amortization of bond issuance costs	75,977	57,922
Change in deposits with bond trustee	2,131	(6,539)

10. SUBSEQUENT EVENT

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through November 16, 2017, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

IRVINGTON COMMUNITY SCHOOLS, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

For the Years Ended June 30,

	2017				(As restated) 2016			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 4,634,231	\$ 964,445	\$ -	\$ 5,598,676	4,953,858	\$ 843,822	\$ -	\$ 5,797,680
Instructional services	56,002	-	-	56,002	192,042	-	-	192,042
Information technology	51,968	9,892	-	61,860	49,105	-	-	49,105
Accounting services	-	168,679	-	168,679	-	242,286	-	242,286
Other outside services	393,923	121,961	30,028	545,912	433,263	138,731	65,828	637,822
Course materials/supplies	59,249	-	-	59,249	123,563	-	-	123,563
Food	328,921	-	-	328,921	314,095	-	-	314,095
Travel and entertainment	63	167	-	230	4,653	113	-	4,766
Vehicle/transportation expense	23,574	-	-	23,574	21,585	-	-	21,585
Rent and facilities	662,170	116,853	-	779,023	639,959	112,934	-	752,893
Depreciation	380,711	67,184	-	447,895	307,448	54,256	-	361,704
Interest expense	586,914	103,573	-	690,487	645,565	113,923	-	759,488
Insurance	63,212	11,155	-	74,367	79,667	14,059	-	93,726
Advertising expenses	8,078	5,771	-	13,849	2,420	-	-	2,420
Small equipment purchases	56,347	-	-	56,347	20,405	-	-	20,405
Other expense	-	-	-	-	-	60	-	60
TOTAL	\$ 7,305,363	\$ 1,569,680	\$ 30,028	\$ 8,905,071	\$ 7,787,628	\$ 1,520,184	\$ 65,828	\$ 9,373,640

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.

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, 2017, 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 16, 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Irvington Community Schools, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Irvington Community Schools, Inc.'s Response to Findings

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sibich LLP

Indianapolis, Indiana

November 16, 2017

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Indianapolis, IN 46240
317.842.4466

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
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, 2017. 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, 2017.

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.

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
November 16, 2017

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/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 2016-2017	\$ 261,742
School Breakfast Program	10.553	FY 2016-2017	<u>38,314</u>
Total for Child Nutrition Cluster			<u>300,056</u>
Total for U.S. Department of Agriculture			<u>300,056</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-through Indiana Department of Education			
Title I Grants to Local Educational Agencies	84.010*	2015-2016	19,160
		2016-2017	<u>575,881</u>
		Total 84.010	<u>595,041</u>
Special Education Grants to States (IDEA, Part B)	84.027	2016-2018	<u>170,458</u>
Total U.S. Department of Education			<u>765,499</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,065,555</u></u>

* 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, 2017

1. 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, 2017. 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).

2. BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded as liabilities when incurred. 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. Pass-through entity numbers are presented where available.

3. COMMODITIES

The School did not receive non-monetary assistance for food commodities for the year ended June 30, 2017.

4. OTHER

The School did not receive any federal insurance nor have any federal loans with continuing compliance. Also, the School did not provide funds to any subrecipients or receive any non-cash assistance for the year ended June 30, 2017.

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

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?	<u> X </u>	Yes	<u> </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	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)

 Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Section II – Financial Statement Findings

Finding 2017-001: Material Weakness – Material Adjusting Entries

Condition: The School did not record the correct value of land when the land was acquired in January 2006, which resulted in a restatement to correct errors in recording the value of the property. We also identified other material financial statement adjustments affecting the current and prior year financial statements. These entries included adjustments to correct errors in recording amortization, depreciation and deposits with bond trustee.

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: Management detected the error during account reconciliations; however, the error was not identified in a timely manner due to turnover of personnel.

Questioned Costs: N/A

Repeat Finding: Yes; 2016-001

Recommendation: We recommend all adjustments be carefully reviewed and the issues which gave rise to the adjustments be investigated and resolved.

Management’s Response: Management is cognizant of the root cause of the findings and has made changes in policies and procedures to assure this finding is not repeated. This includes having a knowledgeable member of management review the financial statements to assure compliance.

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Section IV – Prior Period Follow Up

Prior Finding	Condition	Status
2016-001	Material adjusting entries were recorded during the audit that affected 2016 and restated 2015.	Repeated– 2017-001
2016-002	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.	Not Repeated
2016-003	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.	Not Repeated
2016-004	Amounts submitted to the Federal agency for expenditure reimbursements were based on budgeted amounts instead of actual expenditures.	Not Repeated

OTHER INFORMATION

IRVINGTON COMMUNITY SCHOOLS, INC.

OTHER REPORT

For the Year Ended June 30, 2017

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.