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January 24, 2018

Charter School Board
Avondale Meadows Academy, Inc.
d/b/a/ United Schools of Indianapolis
3980 Meadows Dr.
Indianapolis, IN 46205


We have reviewed the report prepared by Avondale Meadows Academy, Inc. d/b/a/ United Schools of Indianapolis and opined upon by Greenwalt CPAs, Inc., Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Avondale Meadows Academy, Inc. d/b/a/ United Schools of Indianapolis 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.

We call your attention to the finding in the report. Please see the Schedule of Findings and Questioned Costs for detail on the finding and management's planned corrective action.

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

In addition to the report presented herein, a Supplemental Audit Report for Avondale Meadows Academy, Inc. d/b/a/ United Schools of Indianapolis, 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, CPA
State Examiner

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS

FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2017 AND 2016

GREENWALT^{CPAs}

We Deliver Peace of Mind

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Avondale Meadows Academy, Inc. d/b/a
United Schools of Indianapolis:

Report on the Financial Statements

We have audited the accompanying financial statements of Avondale Meadows Academy, Inc. d/b/a United Schools of Indianapolis (an Indiana public charter school, "USI"), 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 of America, *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources* and *Guidelines of Audits of Charter Schools performed by Private Examiners* established 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 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 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 USI'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 USI 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of USI'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 the effectiveness of USI's 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 USI's internal control over financial reporting and compliance.

December 12, 2017

Greenwald CPAs, Inc.

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2017 AND 2016

	<u>ASSETS</u>		<u>LIABILITIES AND NET ASSETS</u>	
	2017	2016	2017	2016
CURRENT ASSETS			CURRENT LIABILITIES	
Cash	\$ 1,580,345	\$ 845,531	Accounts payable	\$ 55,421 \$ 7,321
Cash restricted for middle school construction	5,032,014	-	Payroll and other accrued expenses	396,314 320,519
<i>Total cash</i>	6,612,359	845,531	Current portion of long-term debt	95,807 216,496
Investments	1,262,503	1,253,545	Current portion of capital lease obligations	8,077 31,572
Accounts receivable:			<i>Total current liabilities</i>	555,619 575,908
Grants	680,816	586,811	LONG-TERM LIABILITIES, NET	
Other	71,484	10,038	Long-term debt, net of current portion, unamortized bond	
Prepaid expenses and deposits	159,330	171,283	discount, and deferred bond issuance costs	20,704,425 3,943,828
<i>Total current assets</i>	8,786,492	2,867,208	Capital lease obligations, net of current portion	- 9,497,905
CASH RESTRICTED FOR BOND REDEMPTION	1,442,968	-	Interest rate swap liability	- 74,649
PROPERTY AND EQUIPMENT			<i>Total long-term liabilities</i>	20,704,425 13,516,382
Land	564,800	564,800	<i>Total liabilities</i>	21,260,044 14,092,290
Buildings and building improvements	13,367,925	13,355,350	COMMITMENTS (NOTES 3 AND 9)	
Furniture and equipment	1,127,754	1,233,264	NET ASSETS	
Textbooks	275,594	890,130	Unrestricted	1,359,867 2,234,261
Computers and software	515,451	597,330	Unrestricted board designated	60,000 50,000
Vehicles	5,000	5,000	<i>Total unrestricted net assets</i>	1,419,867 2,284,261
Construction in progress	44,875	-	Temporarily restricted	1,105,995 241,992
Accumulated depreciation	(2,344,953)	(2,894,539)	<i>Total net assets</i>	2,525,862 2,526,253
<i>Total property and equipment, net</i>	13,556,446	13,751,335	<i>Total liabilities and net assets</i>	\$ 23,785,906 \$ 16,618,543
<i>Total assets</i>	\$ 23,785,906	\$ 16,618,543		

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND SUPPORT						
State education support	\$ 6,999,346	\$ -	\$ 6,999,346	\$ 6,293,753	\$ -	\$ 6,293,753
Federal funding	1,678,172	-	1,678,172	1,778,712	-	1,778,712
Student fees	46,613	-	46,613	44,769	-	44,769
Contributions and grants	194,959	1,008,632	1,203,591	115,010	47,350	162,360
Investment income	8,958	-	8,958	7,715	-	7,715
In-kind	217,467	-	217,467	169,731	-	169,731
Loss on interest rate swap	-	-	-	(74,649)	-	(74,649)
Other	69,976	-	69,976	85,411	-	85,411
Net asset released from restriction	144,629	(144,629)	-	42,330	(42,330)	-
<i>Total revenue and support</i>	<u>9,360,120</u>	<u>864,003</u>	<u>10,224,123</u>	<u>8,462,782</u>	<u>5,020</u>	<u>8,467,802</u>
EXPENSES (NOTE 8)						
Salaries and wages	4,365,085	-	4,365,085	4,108,211	-	4,108,211
Employee benefits and development	1,167,118	-	1,167,118	1,030,662	-	1,030,662
Professional services	798,033	-	798,033	675,148	-	675,148
Food cost	620,261	-	620,261	483,319	-	483,319
Classroom, kitchen and office supplies	247,127	-	247,127	243,659	-	243,659
Information technology	160,587	-	160,587	157,381	-	157,381
Occupancy	446,927	-	446,927	376,275	-	376,275
Depreciation and amortization	592,867	-	592,867	501,075	-	501,075
Interest	1,064,699	-	1,064,699	1,044,505	-	1,044,505
Other	198,541	-	198,541	231,316	-	231,316
<i>Total expenses</i>	<u>9,661,245</u>	<u>-</u>	<u>9,661,245</u>	<u>8,851,551</u>	<u>-</u>	<u>8,851,551</u>
CHANGE IN NET ASSETS BEFORE LOSS ON EXTINGUISHMENT OF DEBT	(301,125)	864,003	562,878	(388,769)	5,020	(383,749)
LOSS ON EXTINGUISHMENT OF DEBT	(563,269)	-	(563,269)	-	-	-
CHANGE IN NET ASSETS	(864,394)	864,003	(391)	(388,769)	5,020	(383,749)
NET ASSETS, BEGINNING OF YEAR	<u>2,284,261</u>	<u>241,992</u>	<u>2,526,253</u>	<u>2,673,030</u>	<u>236,972</u>	<u>2,910,002</u>
NET ASSETS, END OF YEAR	<u>\$ 1,419,867</u>	<u>\$ 1,105,995</u>	<u>\$ 2,525,862</u>	<u>\$ 2,284,261</u>	<u>\$ 241,992</u>	<u>\$ 2,526,253</u>

See accompanying notes to financial statements.

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (391)	\$ (383,749)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS		
TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Depreciation and amortization	592,867	501,075
Unrealized and realized (gain) loss on investments	(64)	526
Loss on interest rate swap	-	74,649
Loss on extinguishment of debt	563,269	-
Accrued interest added to capital lease obligation	-	457,405
Write off of bond issuance costs due to debt refinance	37,909	-
<i>Increase (decrease) in operating assets:</i>		
Grants receivable	(94,005)	(444,198)
Other receivables	(61,446)	2,600
Prepaid expenses and deposits	11,953	(132,996)
<i>(Increase) decrease in operating liabilities:</i>		
Accounts payable	48,100	(515)
Payroll and other accrued expenses	75,795	(118,279)
<i>Net cash provided by (used in) operating activities</i>	<u>1,173,987</u>	<u>(43,482)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net of maturities	(71,087)	(3,241)
Proceeds from sale of investments	62,193	-
Purchases of property and equipment	(397,978)	(338,932)
<i>Net cash used in investing activities</i>	<u>(406,872)</u>	<u>(342,173)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from bond issuance, net of debt refinanced	7,416,704	-
Payment of bond issuance costs	(288,038)	-
Principal repayment of long-term debt	(91,144)	(203,788)
Principal reduction of capital lease obligations	(31,572)	(32,913)
Payments made in relation to the extinguishment of capital lease obligations	(563,269)	-
<i>Net cash provided by (used in) financing activities</i>	<u>6,442,681</u>	<u>(236,701)</u>
NET CHANGE IN CASH	7,209,796	(622,356)
CASH, BEGINNING OF YEAR	<u>845,531</u>	<u>1,467,887</u>
CASH AND CASH RESTRICTED FOR BOND REDEMPTION, END OF YEAR	8,055,327	845,531
CASH RESTRICTED FOR BOND REDEMPTION	<u>(1,442,968)</u>	<u>-</u>
TOTAL CASH IN CURRENT ASSETS	<u>\$ 6,612,359</u>	<u>\$ 845,531</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest expense	\$ 990,050	\$ 607,294
Cash paid for interest related to debt extinguishment	\$ 74,649	\$ -
NON-CASH OPERATING ACTIVITIES:		
In-kind contributions	\$ 186,000	\$ 169,731
NON-CASH FINANCING ACTIVITIES:		
Total proceeds from bond issuance	\$ 20,848,288	\$ -
Loan and capital lease obligation payoff transferred directly between creditors via borrowings from bond issuance	\$ (13,431,584)	\$ -

See accompanying notes to financial statements.

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Avondale Meadows Academy, Inc. d/b/a United Schools of Indianapolis ("USI") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. USI (formerly named Challenge Foundation Academy, Inc.) is the organizer of three charter schools located in Indianapolis, Indiana. Each of the schools is a public charter school established under Indiana Code 20-24 and sponsored by the Mayor's Office of the City of Indianapolis. USI's main source of revenue and support is from state and federal education funding.

Avondale Meadows Academy (Avondale), which opened in 2006, is a K-5 tuition-free quality public charter school founded on the Core Knowledge curriculum. The core focus is to provide an outstanding education for our children equipping them with the knowledge, wisdom, core values, and behaviors to be successful in life. The mission of Avondale is to provide a rigorous and relevant college-preparatory program, grounded in our belief in the ability of every child to succeed at high levels.

Vision Academy at Riverside (Vision), which opened in 2014, is K-8. Vision will provide every scholar in its school a college-preparatory education. Vision couples a literacy-based, content-rich academic program with a unique Vision curriculum, focused on goal setting and individual passions. Vision also offers every scholar ample after-school and extra-curricular opportunities as well as a rich array of family involvement opportunities, designed to ensure every scholar has the skills and support to succeed in college and in life.

Avondale Meadows Middle School (AMMS), which opened in July 2017, is a free, public, neighborhood charter school serving grades 6 - 8. AMMS offers a strong Core Knowledge curriculum which complements Indiana's Academic Standards and Common Core Standards. This curriculum is integrated with and supported by enVision Mathematics and Reader's and Writer's Workshop, which is intended to prepare students for college.

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The accompanying financial statements have been prepared on an accrual basis of accounting. 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.

FINANCIAL STATEMENT PRESENTATION

In accordance with the Not-for-Profit Organizations Revenue Recognition Accounting Standards, donations and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence or nature of any donor restrictions.

In accordance with Accounting Standards for the Preparation of Financial Statements for Not-for-Profit Organizations, USI is required to report information regarding its financial position and activities according to three classes of net assets restrictions:

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

FINANCIAL STATEMENT PRESENTATION, CONTINUED

- Unrestricted net assets, which represent assets that the Board of Directors has discretionary control to use in carrying on the operations of the organization in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets, which represent assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.
- Permanently restricted net assets, which represent donor-imposed-restrictions that neither expire by being used according to the donor's purpose or with the passage of time.

In addition, there are certain transactions that occur during the normal course of business between Avondale, Vision, and AMMS. These transactions have been eliminated for reporting purposes.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, USI considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2017 and 2016.

At June 30, 2017, USI maintained cash in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) of \$250,000.

GRANTS AND ACCOUNTS RECEIVABLE

Grants receivable relate to activities funded under private grants, federal, and state programs. Management believes that USI is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets.

Accounting Standards for Fair Value Measurement define fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Those standards also establish a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, giving highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and lowest priority to unobservable inputs (level 3 measurements).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

AVONDALE MEADOWS ACADEMY, INC. D/B/A
 UNITED SCHOOLS OF INDIANAPOLIS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair values measured on a recurring basis at June 30 are as follows:

	2017 <u>Totals</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>
<u>INVESTMENTS</u>			
Money market funds	\$ 1,031,548	\$ -	\$ 1,031,548
Corporate and government bonds	<u>230,955</u>	<u>230,955</u>	<u>-</u>
Total	<u>\$ 1,262,503</u>	<u>\$ 230,955</u>	<u>\$ 1,031,548</u>

	2016 <u>Totals</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>
<u>INVESTMENTS</u>			
Money market funds	\$ 11,025	\$ -	\$ 11,025
Corporate and government bonds	240,137	240,137	
Negotiable certificates of deposit	<u>1,002,383</u>	<u>1,002,383</u>	<u>-</u>
Total	<u>\$ 1,253,545</u>	<u>\$ 1,242,520</u>	<u>\$ 11,025</u>

Following is a description of the valuation methodologies used for assets measured at fair value. The methods for determining fair value have not changed in fiscal year 2017.

- Money market funds: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized costs of the securities held in the fund.
- Government and corporate bonds: Valued based on quoted market prices.
- Negotiable certificates of deposits: Valued based on quoted market prices.

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

PROPERTY AND EQUIPMENT

Purchases of these 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 and minor replacement costs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Construction in progress related to AMMS will be depreciated over the estimated useful lives of the respective assets once placed in service. The estimated useful lives generally are as follows:

Buildings and improvements	40 years
Furniture, equipment, and vehicles	5 years
Textbooks	4 years
Computers and software	3 years

REVENUE RECOGNITION

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, USI receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is 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 USI's revenue is the product of cost reimbursement grants. Accordingly, USI recognizes revenue under these grants as costs are incurred.

CONTRIBUTIONS AND GRANTS

Contributions and grants received are measured at their fair values and are reported as an increase in net assets in the period they are promised. USI reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

CONTRIBUTED SERVICES

Pursuant to the Not-for-Profit Organizations Revenue Recognition Accounting Standards, contributions of services are recognized if the services received (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 USI.

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

CONTRIBUTED SERVICES

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.

In-kind contributions have been included in the statements of activities. They have been treated as non-cash activities for the purposes of the statements of cash flows. In-kind contributions for the years ended June 30 were:

	<u>2017</u>	<u>2016</u>
Avondale	\$ 61,994	\$ 89,792
Vision	55,473	79,939
AMMS	<u>100,000</u>	<u>-</u>
	<u>\$ 217,467</u>	<u>\$ 169,731</u>

\$86,000 of in-kind contributions represents nursing services and \$100,000 of in-kind contributions is for donated school administrative services for fiscal year 2017. \$169,731 of in-kind contributions related to nursing services in fiscal year 2016. Volunteers provide program services throughout the year that do not meet the recognition criteria for contributed services. These services include volunteering at events, picking up donations, and various clerical tasks. The effect of these services has not been reflected in the statements of activities.

ADVERTISING

Advertising expenses totaled \$50,715 and \$8,475 for fiscal years 2017 and 2016, respectively. USI's policy is to record advertising expenditures in the period in which they are incurred.

TAX STATUS

USI is exempt from income tax under the provisions of Section 501 (c)(3) of the Internal Revenue Code, however, USI would be subject to tax on income unrelated to its tax-exempt purpose. USI is not considered a private foundation as defined in Section 509(a) of the Internal Revenue Code.

SUBSEQUENT EVENTS

USI evaluated subsequent events through December 12, 2017, the date these financial statements were available to be issued.

AVONDALE MEADOWS ACADEMY, INC. D/B/A
 UNITED SCHOOLS OF INDIANAPOLIS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017 AND 2016

2. LONG-TERM DEBT

Long-term debt consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
2017 Series Bonds	\$ 21,345,000	\$ -
Bond obligation to Huntington Public Capital Corporation	-	3,867,107
Equipment loan payable to IFF	<u>239,982</u>	<u>331,127</u>
Total long-term debt	21,584,982	4,198,234
Less: current portion	(95,807)	(216,496)
Less: unamortized discount on 2017 series bonds	(496,712)	-
Less: deferred loan costs	<u>(288,038)</u>	<u>(37,910)</u>
Long-term, net	<u>\$ 20,704,425</u>	<u>\$ 3,943,828</u>

In 2014, USI obtained financing to purchase one of its school facilities through the sale of Educational Facility Revenue Bonds issued by the Indiana Finance Authority. USI executed a note payable to Huntington Public Capital Corporation, the holder of the bonds, in the amount of \$4,175,000. The note was payable in monthly installments of principal and interest based on a 25-year amortization schedule with the balance due in October 2018. The note carried a variable rate of interest based on LIBOR, which USI converted to fixed rate of 2.83% via a rate swap agreement with Huntington National Bank. The loan was secured by land, building, and other business assets.

In June 2017, USI obtained financing for the purpose of refinancing the existing Series 2013 bonds, pay off a development lease arrangement (See Note 3), and construct a new building for AMMS through the sale of Educational Facilities Multipurpose Revenue Bonds, Series 2017, issued by the Indiana Finance Authority. The Series 2017 bonds are payable in a series of escalating payments of principle and interest beginning in July 2019 and January 2018, respectively, with the final payment due in July 2047. The note carries an interest rate beginning at 5.0% and rising to 5.375% by July 2038. The loan is secured by land, building, and other business assets.

The Series 2017 bonds also require the establishment of a debt reserve fund of \$1,442,968 that will assist with final payment of the bonds. Approximately \$5,000,000 of the bonds' balance will be used in the construction of the AMMS building and grounds.

The loan agreements contain certain covenants that limit USI's ability to incur indebtedness or guarantees, purchase or dispose of assets, or change the nature of the business. The agreement also contains financial maintenance covenants establishing a minimum debt service coverage ratio and days cash on hand requirement. Debt covenants are not applicable to the Series 2017 bonds until June 2018.

Costs associated with securing financing, have been deferred and are being amortized over the term of the bonds using the straight-line method.

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

2. LONG-TERM DEBT, CONTINUED

The loan from Illinois Facilities Fund (IFF) is payable in monthly installments, including interest at 5% per annum, through November 2019. The loan is secured by a first position in all of USI's furniture, fixtures, and equipment.

Future maturities of long-term debt are as follows:

2018	\$	95,807
2019		100,707
2020		308,468
2021		285,000
2022		325,000
Thereafter		<u>20,470,000</u>
	\$	<u>21,584,982</u>

3. CAPITAL AND OPERATING LEASES

USI had an agreement to lease its Vision building commencing September 1, 2014. The lease was accounted for as a capital lease. The lease required monthly escalating rental payments through the termination of the lease in 2043. USI was also responsible for all costs associated with the building, including insurance, taxes, repairs, maintenance, and utilities. This lease was paid in full as of June 30, 2017 in conjunction with the bond transaction described in Note 2.

USI leases certain items of equipment under a lease that is accounted for as a capital lease. The cost and accumulated depreciation relating to the leased equipment was recorded at \$82,425 and \$75,556 as of June 30, 2017. The cost and accumulated depreciation related to the leased building and equipment were recorded at \$8,735,116 and \$450,702 as of June 30, 2016.

USI also leases items of equipment and building space under operating leases with various expiration dates through 2019. Total expense under operating leases for 2017 and 2016 was \$55,260 and \$52,330, respectively.

Future minimum rental payments required under operating leases are as follows:

2018	\$	159,688
2019		<u>19,507</u>
	\$	<u>179,195</u>

AVONDALE MEADOWS ACADEMY, INC. D/B/A
 UNITED SCHOOLS OF INDIANAPOLIS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017 AND 2016

4. BOARD DESIGNATED NET ASSETS

The Charters for Avondale and Vision require that each establish an account held in escrow of \$30,000 no later than December of the third year of operations. The escrow is designated for any potential dissolution costs of the school. Board designated net assets were as follows at June 30:

	<u>2017</u>	<u>2016</u>
Avondale	\$ 30,000	\$ 30,000
Vision	30,000	20,000
	<u>\$ 60,000</u>	<u>\$ 50,000</u>

5. RESTRICTED NET ASSETS

Temporarily restricted net assets represent resources received from grantors and donors that were not expended for restricted purposes as of June 30, 2017 and 2016. Temporarily restricted net assets as of June 30 were available for the following purposes:

	<u>2017</u>	<u>2016</u>
Teacher awards and bonuses	\$ 221,707	\$ 229,192
Implementation	550,656	-
Capacity building	270,000	-
Other programs	63,632	12,800
	<u>\$ 1,105,995</u>	<u>\$ 241,992</u>

Net assets were released from donor restrictions by incurring expenses or purchasing assets satisfying the restricted purpose. The following purpose restrictions were accomplished during the years ended June 30:

	<u>2017</u>	<u>2016</u>
Teacher awards and bonuses	\$ 7,485	\$ 5,000
Implementation	124,344	-
Other programs	12,800	37,330
	<u>\$ 144,629</u>	<u>\$ 42,330</u>

AVONDALE MEADOWS ACADEMY, INC. D/B/A
 UNITED SCHOOLS OF INDIANAPOLIS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017 AND 2016

6. RETIREMENT PLANS

USI provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. In 2017 and 2016, USI contributed 7.5% of compensation for teaching faculty to TRF. Should USI elect to withdraw from TRF, USI could be subject to a withdrawal fee. USI's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2016 (the latest year reported), TRF was more than 90% funded. A copy of the complete annual report for the year ended June 30, 2016 can be obtained at:

www.in.gov/inprs/files/2016INPRSCAFRBook.pdf

USI also offers a 403(b) defined contribution retirement plan. Non-teaching personnel and teachers who opt to not participate in TRF are eligible for benefits under the 403(b) plan. Under the 403(b) plan, USI contributes 7.5% of employee's compensation.

For 2017 and 2016, retirement plan expense under both plans was \$240,892 and \$249,302, respectively.

7. RISKS AND UNCERTAINTIES

USI provides education services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect USI. Additionally, USI is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on USI.

Financial instruments that potentially subject USI to concentrations of credit risk consist principally of revenues from the State of Indiana. For 2017 and 2016, the basic state tuition support was 66.6% and 67.6%, respectively. At June 30, 2017, the 80.6% of grants receivable was due from one private funder. At June 30, 2016, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at a financial institution in excess of the FDIC insurance limit at June 30, 2017.

8. FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and management services. Following is a summary of expenses comprising program services and management and general for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Program Services	\$ 7,539,089	\$ 7,015,232
Management and General	<u>2,122,156</u>	<u>1,836,319</u>
	<u>\$ 9,661,245</u>	<u>\$ 8,851,551</u>

AVONDALE MEADOWS ACADEMY, INC. D/B/A
 UNITED SCHOOLS OF INDIANAPOLIS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017 AND 2016

9. COMMITMENTS

In fiscal year 2017, USI entered into purchase commitments for the design and construction of a building for AMMS. USI has an outstanding commitment with a builder of approximately \$5,000,000 at June 30, 2017 for the project. All construction will be performed during fiscal year 2018 and will be funded with bond proceeds. See Note 2.

10. FEDERAL, STATE, AND LOCAL GRANT AWARDS

In accordance with guidelines established by the Indiana State Board of Accounts, this federal, state, and local grant information was included to aid in the verification of Indiana financial assistance on the Entity Annual Report (E-1).

Program Name	Grantor Name	CFDA	Revenue	Expense	Funding Type
National School Lunch Program	Indiana Department of Education	10.555	\$558,783	\$599,212	Federal grant passed through state or local government
Title I, Part A Cluster	Indiana Department of Education	84.010	\$837,658	\$837,658	Federal grant passed through state or local government
Special Education Cluster (IDEA, Part B)	Indiana Department of Education	84.027	\$183,592	\$183,592	Federal grant passed through state or local government
Improving Teacher Quality State Grants	Indiana Department of Education	84.367	\$98,138	\$98,138	Federal grant passed through state or local government
Teacher Incentive Fund	Indiana Department of Education	84.374	\$(26,591)	\$(26,591)	Federal grant passed through state or local government
Basic Tuition Support	Indiana Department of Education	N/A	\$6,441,206	\$6,441,206	State or Local Government
Charter School Grant	Indiana Department of Education	N/A	\$451,500	\$451,500	State or Local Government
Medicaid Reimbursement	Indiana Department of Education	N/A	\$17,601	\$17,601	State of Local Government
State Lunch Match	Indiana Department of Education	N/A	\$3,188	\$3,188	State or Local Government

AVONDALE MEADOWS ACADEMY, INC. D/B/A
UNITED SCHOOLS OF INDIANAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

10. FEDERAL, STATE, AND LOCAL GRANT AWARDS, CONTINUED

Textbook Reimbursement	Indiana Department of Education	N/A	\$55,502	\$55,502	State or Local Government
Mediation Testing	Indiana Department of Education	N/A	\$7,194	\$7,194	State or Local Government
Secured Schools Safety Grant	Indiana Department of Education	N/A	\$23,155	\$23,155	State or Local Government
		Total	\$8,650,926	\$8,691,355	

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of Avondale Meadows Academy, Inc. d/b/a
United Schools of Indianapolis:

We have audited the financial statements of USI as of and for the years ended June 30, 2017 and 2016, and our report thereon dated December 12, 2017, which expressed an unmodified opinion on those financial statements, appears on page one. 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 as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis and is not a required part of the financial statements. Exhibits I and II are presented for purposes of additional analysis, as required by the Indiana State Board of Accounts, rather than to present financial position and results of operations by school, and are not a required part of the financial statements. The schedule of expenditures of federal awards and Exhibits I and II are the responsibility of management and were derived from and relate 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 for the year ended June 30, 2017, and the statements of financial position and activities by school as of and for the years ended June 30, 2017 and 2016, are fairly stated, in all material respects, in relation to the financial statements as a whole.

Greenwalt CPAs, Inc.

December 12, 2017

ASSETS

	AVONDALE	VISION	AMMS	USI	ELIMINATIONS	TOTAL
CURRENT ASSETS						
Cash	\$ 1,003,992	\$ 323,710	\$ 252,643	\$ -	\$ -	\$ 1,580,345
Cash restricted for middle school construction	-	-	5,032,014	-	-	5,032,014
<i>Total cash</i>	1,003,992	323,710	5,284,657	-	-	6,612,359
Investments	1,262,503	-	-	-	-	1,262,503
Accounts receivable:						
Grants	90,106	70,710	250,000	270,000	-	680,816
Interschool	280,000	-	-	-	(280,000)	-
Other	30,458	41,026	-	-	-	71,484
Prepaid expenses and deposits	76,308	75,227	7,795	-	-	159,330
<i>Total current assets</i>	2,743,367	510,673	5,542,452	270,000	(280,000)	8,786,492
CASH RESTRICTED FOR BOND REDEMPTION	1,442,968	-	-	-	-	1,442,968
PROPERTY AND EQUIPMENT						
Land	564,800	-	-	-	-	564,800
Buildings and building improvements	4,715,234	8,652,691	-	-	-	13,367,925
Furniture and equipment	614,056	500,228	13,470	-	-	1,127,754
Textbooks	86,621	183,056	5,917	-	-	275,594
Computers and software	275,607	137,130	102,714	-	-	515,451
Vehicles	3,500	1,500	-	-	-	5,000
Construction in progress	-	-	44,875	-	-	44,875
Accumulated depreciation	(1,328,814)	(1,016,139)	-	-	-	(2,344,953)
<i>Total property and equipment, net</i>	4,931,004	8,458,466	166,976	-	-	13,556,446
<i>Total assets</i>	<u>\$ 9,117,339</u>	<u>\$ 8,969,139</u>	<u>\$ 5,709,428</u>	<u>\$ 270,000</u>	<u>\$ (280,000)</u>	<u>\$ 23,785,906</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES						
Accounts payable	\$ 14,758	\$ 24,883	\$ 15,780	\$ -	\$ -	\$ 55,421
Interschool payable	-	280,000	-	-	(280,000)	-
Payroll and other accrued expenses	211,809	180,595	3,910	-	-	396,314
Current portion of long-term debt	-	95,807	-	-	-	95,807
Current portion of capital lease obligations	-	8,077	-	-	-	8,077
<i>Total current liabilities</i>	226,567	589,362	19,690	-	(280,000)	555,619
LONG-TERM LIABILITIES, NET						
Long-term debt, net of current portion, unamortized bond discount, and deferred bond issuance costs	5,592,876	10,264,537	4,847,012	-	-	20,704,425
<i>Total liabilities</i>	5,819,443	10,853,899	4,866,702	-	(280,000)	21,260,044
COMMITMENTS (NOTES 4 AND 9)						
NET ASSETS (ACCUMULATED DEFICIT)						
Unrestricted	3,032,557	(1,914,760)	242,070	-	-	1,359,867
Unrestricted board designated	30,000	30,000	-	-	-	60,000
<i>Total unrestricted net assets (accumulated deficit)</i>	3,062,557	(1,884,760)	242,070	-	-	1,419,867
Temporarily restricted	235,339	-	600,656	270,000	-	1,105,995
<i>Total net assets (accumulated deficit)</i>	3,297,896	(1,884,760)	842,726	270,000	-	2,525,862
<i>Total liabilities and net assets</i>	<u>\$ 9,117,339</u>	<u>\$ 8,969,139</u>	<u>\$ 5,709,428</u>	<u>\$ 270,000</u>	<u>\$ (280,000)</u>	<u>\$ 23,785,906</u>

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
 SCHEDULE OF ACTIVITIES BY SCHOOL
 FOR THE YEAR ENDED JUNE 30, 2017

Exhibit I
 Page 2 of 2

	AVONDALE	VISION	AMMS	USI	TOTAL
REVENUE AND SUPPORT					
State education support	\$ 3,431,307	\$ 3,568,039	\$ -	\$ -	\$ 6,999,346
Federal funding	824,564	853,608	-	-	1,678,172
Student fees	37,703	8,910	-	-	46,613
Contributions and grants	162,167	46,424	725,000	270,000	1,203,591
Investment income	8,958	-	-	-	8,958
In-kind	61,994	55,473	100,000	-	217,467
Other	34,422	35,351	203	-	69,976
<i>Total revenue and support</i>	<u>4,561,115</u>	<u>4,567,805</u>	<u>825,203</u>	<u>270,000</u>	<u>10,224,123</u>
EXPENSES					
Salaries and wages	2,225,549	2,114,176	25,360	-	4,365,085
Employee benefits and development	606,215	556,104	4,799	-	1,167,118
Professional services	392,373	279,973	125,687	-	798,033
Food cost	301,563	318,698	-	-	620,261
Classroom, kitchen and office supplies	145,243	93,643	8,241	-	247,127
Information technology	73,166	86,982	439	-	160,587
Occupancy	239,202	205,457	2,268	-	446,927
Depreciation and amortization	209,266	383,601	-	-	592,867
Interest	104,848	959,851	-	-	1,064,699
Other	107,661	90,195	685	-	198,541
<i>Total expenses</i>	<u>4,405,086</u>	<u>5,088,680</u>	<u>167,479</u>	<u>-</u>	<u>9,661,245</u>
CHANGE IN NET ASSETS BEFORE LOSS ON EXTINGUISHMENT OF DEBT	156,029	(520,875)	657,724	270,000	562,878
LOSS ON EXTINGUISHMENT OF DEBT	-	(563,269)	-	-	(563,269)
CHANGE IN NET ASSETS	156,029	(1,084,144)	657,724	270,000	(391)
TRANSFER OF NET ASSETS	(571,279)	386,277	185,002	-	-
NET ASSETS (ACCUMULATED DEFICIT), BEGINNING OF YEAR	<u>3,713,146</u>	<u>(1,186,893)</u>	<u>-</u>	<u>-</u>	<u>2,526,253</u>
NET ASSETS (ACCUMULATED DEFICIT), END OF YEAR	<u>\$ 3,297,896</u>	<u>\$ (1,884,760)</u>	<u>\$ 842,726</u>	<u>\$ 270,000</u>	<u>\$ 2,525,862</u>

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
 SCHEDULE OF FINANCIAL POSITION BY SCHOOL
 JUNE 30, 2016

Exhibit II
 Page 1 of 2

ASSETS				
	AVONDALE	VISION	ELIMINATIONS	TOTAL
CURRENT ASSETS				
Cash	\$ 645,501	\$ 200,030	\$ -	\$ 845,531
Investments	1,253,545	-	-	1,253,545
Accounts receivable:				
Grants	282,961	303,850	-	586,811
Interschool	560,000	-	(560,000)	-
Other	2,500	7,538	-	10,038
Prepaid expenses and deposits	54,641	116,642	-	171,283
<i>Total current assets</i>	<u>2,799,148</u>	<u>628,060</u>	<u>(560,000)</u>	<u>2,867,208</u>
PROPERTY AND EQUIPMENT				
Land	564,800	-	-	564,800
Buildings and building improvements	4,702,659	8,652,691	-	13,355,350
Furniture and equipment	750,456	482,808	-	1,233,264
Textbooks	727,967	162,163	-	890,130
Computers and software	531,239	66,091	-	597,330
Vehicles	3,500	1,500	-	5,000
Accumulated depreciation	(2,262,001)	(632,538)	-	(2,894,539)
<i>Total property and equipment, net</i>	<u>5,018,620</u>	<u>8,732,715</u>	<u>-</u>	<u>13,751,335</u>
<i>Total assets</i>	<u>\$ 7,817,768</u>	<u>\$ 9,360,775</u>	<u>\$ (560,000)</u>	<u>\$ 16,618,543</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 2,545	\$ 4,776	\$ -	\$ 7,321
Interschool payable	-	560,000	(560,000)	-
Payroll and other accrued expenses	198,231	122,288	-	320,519
Current portion of long-term debt	125,352	91,144	-	216,496
Current portion of capital lease obligations	-	31,572	-	31,572
<i>Total current liabilities</i>	<u>326,128</u>	<u>809,780</u>	<u>(560,000)</u>	<u>575,908</u>
LONG-TERM LIABILITIES, NET				
Long-term debt, net of current portion and deferred issuance costs	3,703,845	239,983	-	3,943,828
Capital lease obligations, net of current portion	-	9,497,905	-	9,497,905
Interest rate swap liability	74,649	-	-	74,649
<i>Total long-term liabilities</i>	<u>3,778,494</u>	<u>9,737,888</u>	<u>-</u>	<u>13,516,382</u>
<i>Total liabilities</i>	<u>4,104,622</u>	<u>10,547,668</u>	<u>(560,000)</u>	<u>14,092,290</u>
COMMITMENTS (NOTES 3 AND 9)				
NET ASSETS (ACCUMULATED DEFICIT)				
Unrestricted	3,441,154	(1,206,893)	-	2,234,261
Unrestricted board designated	30,000	20,000	-	50,000
<i>Total unrestricted net assets (accumulated deficit)</i>	<u>3,471,154</u>	<u>(1,186,893)</u>	<u>-</u>	<u>2,284,261</u>
Temporarily restricted	241,992	-	-	241,992
<i>Total net assets (accumulated deficit)</i>	<u>3,713,146</u>	<u>(1,186,893)</u>	<u>-</u>	<u>2,526,253</u>
<i>Total liabilities and net assets</i>	<u>\$ 7,817,768</u>	<u>\$ 9,360,775</u>	<u>\$ (560,000)</u>	<u>\$ 16,618,543</u>

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
SCHEDULE OF ACTIVITIES BY SCHOOL
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit II
Page 2 of 2

	AVONDALE	VISION	TOTAL
REVENUE AND SUPPORT			
State education support	\$ 3,455,035	\$ 2,838,718	\$ 6,293,753
Federal funding	973,027	805,685	1,778,712
Student fees	39,388	5,381	44,769
Contributions and grants	130,560	31,800	162,360
Investment income	7,715	-	7,715
In-kind	89,792	79,939	169,731
Other	(74,649)	-	(74,649)
	<u>25,559</u>	<u>59,852</u>	<u>85,411</u>
<i>Total revenue and support</i>	<u>4,646,427</u>	<u>3,821,375</u>	<u>8,467,802</u>
 EXPENSES			
Salaries and wages	2,368,789	1,739,422	4,108,211
Employee benefits and development	620,037	410,625	1,030,662
Professional services	383,465	291,683	675,148
Food cost	233,799	249,520	483,319
Classroom, kitchen and office supplies	153,795	89,864	243,659
Information technology	68,346	89,035	157,381
Occupancy	258,126	210,303	468,429
Depreciation and amortization	274,420	226,655	501,075
Interest	51,107	993,398	1,044,505
Other	68,296	70,866	139,162
	<u>4,480,180</u>	<u>4,371,371</u>	<u>8,851,551</u>
 Total expenses	<u>4,480,180</u>	<u>4,371,371</u>	<u>8,851,551</u>
 CHANGE IN NET ASSETS	 166,247	 (549,996)	 (383,749)
 NET ASSETS (ACCUMULATED DEFICIT), BEGINNING OF YEAR	 <u>3,546,899</u>	 <u>(636,897)</u>	 <u>2,910,002</u>
 NET ASSETS (ACCUMULATED DEFICIT), END OF YEAR	 <u>\$ 3,713,146</u>	 <u>\$ (1,186,893)</u>	 <u>\$ 2,526,253</u>

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY OR PASS-THROUGH NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	2016-2017-9645	\$ 301,562
		2016-2017-9935	<u>297,650</u>
<i>Total National School Lunch Program, Child Nutrition Cluster, and U.S. Department of Agriculture</i>			<u>599,212</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
Title I, Part A			
Title I Grants to Local Educational Agencies	84.010	16-9645	39,858
		17-9645	391,844
		16-9935	88,875
		17-9935	<u>317,081</u>
<i>Total Title I, Part A</i>			837,658
Special Education Cluster (IDEA)			
Special Education - Grants to States (IDEA, Part B)	84.027	14217-533-PN01	87,121
		14216-588-PN01	8,947
		14217-577-PN01	<u>87,524</u>
<i>Total Special Education Cluster (IDEA)</i>			183,592
Supporting Effective Instruction State Grants			
	84.367	S367A150015	5,870
		S367A160013	50,278
		FY14	12,478
		S367A150013	<u>29,512</u>
<i>Total Supporting Effective Instruction State Grants</i>			98,138
Teacher Incentive Fund	84.374	2014-2015A	(26,591)
<i>Total passed through the Indiana Department of Education</i>			<u>1,092,797</u>
<i>Total U.S. Department of Education</i>			<u>1,092,797</u>
<i>Total expenditures of federal awards</i>			<u>\$ 1,692,009</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of USI under programs of the federal government for the year ended June 30, 2017. 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, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of USI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of USI.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. INDIRECT COST RATE

USI has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Avondale Meadows Academy, Inc. d/b/a
United Schools of Indianapolis:

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 of America, the financial statements of Avondale Meadows Academy, Inc. d/b/a United Schools of Indianapolis ("USI"), 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 December 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered USI'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 USI's internal control. Accordingly, we do not express an opinion on the effectiveness of USI'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 have not been identified. We did identify a certain deficiency in internal control, described as finding #2017-001 in the accompanying schedule of findings and questioned costs that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether USI'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*.

USI's Response to Findings

USI's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. USI'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 USI'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greenwald CPAs, Inc.

December 12, 2017



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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Avondale Meadows Academy, Inc. d/b/a
United Schools of Indianapolis:

Report on Compliance for Each Major Federal Program

We have audited Avondale Meadows Academy, Inc. d/b/a United Schools of Indianapolis' ("USI") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the USI's major federal programs for the year ended June 30, 2017. USI'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of USI'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 of America; 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 USI'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 USI's compliance.

Opinion on Each Major Federal Program

In our opinion, USI 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 USI 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 USI'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 USI'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.

Greenwald CPAs, Inc.

December 12, 2017

AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDIT RESULTS

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
2. Internal control over financial reporting:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes none reported
3. Noncompliance material to financial statements noted? yes no

Federal Awards

4. Internal control over major federal programs:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes none reported
5. Type of auditors' report issued on compliance for major federal programs: Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no
7. Identification of major program: CFDA Number Name of Federal Program or Cluster
 84.010 Title I, Part A
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. Auditee qualified as low-risk auditee? yes no

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2017-001

Criteria: According to FASB ASC 958-310-25-1, unconditional promises to give should be recognized as revenue in the period promised.

Condition: During our testing of net assets and grants receivables, we noted three grants dated before year-end that had not been recognized as revenue or grants receivable as of June 30, 2017.

Context: Per our review of key controls, we noted that management has monthly director meetings with the accountant to review financial statements and related information. In addition, management typically will provide the accountant any new grant agreements as the award notifications are received.

Cause: This control does not appear to be operating effectively as of June 30, 2017.

Effect: This resulted in audit adjustments to increase grants receivable and grant revenue by \$520,000 (\$270,000 recorded to USI and \$250,000 recorded to AMMS). The adjustment had no impact on Vision or AMA.

Recommendation: We recommend that management consider establishing a checklist or standard agenda to be covered at the monthly meetings which could help reduce the likelihood of similar issues in the future.

Views of responsible officials and planned corrective actions: The 2017 bond issuance, formation of the USI central office, and locating a facility for the new middle school resulted in an unusually large volume of activity around the June 30, 2017 year-end and ultimately lead to a breakdown in communication and failure of the control to operate effectively. Management recognizes the risks; however, deems this to be an anomaly that will be corrected going forward.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

**AVONDALE MEADOWS ACADEMY, INC. D/B/A UNITED SCHOOLS OF INDIANAPOLIS
OTHER REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

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

Supplemental Audit Report of Avondale Meadows Academy, Inc. d/b/a United Schools of Indianapolis