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November 13, 2018

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, 2017 to June 30, 2018. 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, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Emphasis of Matter Regarding Failure to Comply with Debt Covenants paragraph included in the Independent Auditors' Report and further detailed in Note 6.

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.**

FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION  
AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2018 and 2017



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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, 2018 and 2017, 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, 2018 and 2017, 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 6, for the year ended June 30, 2018, Irvington Community Schools, Inc. was not in compliance with a financial covenant outlined in the bond agreement of their bond holders.

## **Other Matter**

### *Other Information*

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018, 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  
October 18, 2018

## **FINANCIAL STATEMENTS**

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**STATEMENTS OF FINANCIAL POSITION**

As of June 30,

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 738,288	\$ 381,379
Grants receivable	78,063	103,386
Prepaid expense	93,940	93,159
Property and equipment, net	6,465,698	6,616,037
Contributions receivable	841,005	841,005
Deposits with bond trustee	1,238,972	1,224,788
<b>TOTAL ASSETS</b>	<u><u>\$ 9,455,966</u></u>	<u><u>\$ 9,259,754</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 190,140	\$ 304,180
Accrued interest	336,702	333,388
Accrued expenses	63,495	209,883
Obligations under capital leases	77,632	9,828
Loan payable	770,950	861,650
Notes payable	70,195	52,558
	<u>1,509,114</u>	<u>1,771,487</u>
Bonds payable	8,511,187	8,682,145
Less: Unamortized bond issuance costs	347,523	405,443
Bonds payable, less unamortized bond issuance costs	<u>8,163,664</u>	<u>8,276,702</u>
Total liabilities	<u>9,672,778</u>	<u>10,048,189</u>
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted net deficit	(1,057,817)	(1,629,440)
Temporarily restricted	841,005	841,005
Total net deficit	<u>(216,812)</u>	<u>(788,435)</u>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<u><u>\$ 9,455,966</u></u>	<u><u>\$ 9,259,754</u></u>

See accompanying notes to financial statements.

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**STATEMENTS OF ACTIVITIES**

For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES AND SUPPORT</b>		
State support	\$ 6,732,627	\$ 6,711,812
Grant revenue	1,778,571	1,749,268
In-kind contribution	920,235	522,432
School lunch program	75,539	79,098
Student and textbook fees	165,547	146,392
Before and after school programs	-	18,877
Contributions and donations	20,990	35,238
Rental revenue	300	1,550
Special events, less cost of direct benefit to donors of \$13,187 and \$5,068 in 2018 and 2017, respectively	16,800	20,180
Other revenue	93,463	69,197
	<u>9,804,072</u>	<u>9,354,044</u>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES</b>		
Program services	7,602,606	7,305,363
Supporting services:		
General and administrative	1,603,851	1,569,680
Fundraising	25,992	24,960
	<u>9,232,449</u>	<u>8,900,003</u>
Total expenses	<u>9,232,449</u>	<u>8,900,003</u>
Increase in unrestricted net assets	571,623	454,041
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
In-kind contribution	-	280,336
	<u>571,623</u>	<u>734,377</u>
INCREASE IN NET ASSETS	<u>571,623</u>	<u>734,377</u>
NET DEFICIT, BEGINNING OF YEAR	<u>(788,435)</u>	<u>(1,522,812)</u>
NET DEFICIT, END OF YEAR	<u>\$ (216,812)</u>	<u>\$ (788,435)</u>

See accompanying notes to financial statements.

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30,

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 571,623	\$ 734,377
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation	453,507	389,975
Amortization of bond issuance costs	57,920	57,920
Decrease (increase) in:		
Grants receivable	25,323	94,665
Prepaid expense	(781)	(4,142)
Contributions receivable	-	(280,336)
Increase (decrease) in:		
Accounts payable	(114,040)	(88,524)
Accrued interest	3,314	(4,240)
Accrued expenses	(146,388)	(150,005)
Net cash and cash equivalents provided by operating activities	<u>850,478</u>	<u>749,690</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in deposits with bond trustee	(14,184)	(243)
Purchases of property and equipment	(303,168)	(125,318)
Net cash and cash equivalents (used) by investing activities	<u>(317,352)</u>	<u>(125,561)</u>

See accompanying notes to financial statements.

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30,

<b>(Continued)</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit repayments	\$ -	\$ (40,225)
Capital lease borrowings	67,804	(18,152)
Note payable borrowings	60,300	-
Note payable repayments	(42,693)	(68,710)
Long term debt repayments	(261,628)	(162,217)
	<u>(176,217)</u>	<u>(289,304)</u>
Net cash and cash equivalents (used) by financing activities	(176,217)	(289,304)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>356,909</b>	<b>334,825</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>381,379</b>	<b>46,554</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 738,288</b>	<b>\$ 381,379</b>
 <b>SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES</b>		
Purchases of property and equipment in accounts payable	\$ 60,300	\$ -
Assets acquired under capital leases	\$ 95,496	\$ -
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 741,960	\$ 694,727

See accompanying notes to financial statements.

# IRVINGTON COMMUNITY SCHOOLS, INC.

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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### 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. Fees of \$53,310 and \$51,898 were paid to the Sponsor for the years ended June 30, 2018 and 2017, respectively.

#### 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, 2018 and 2017, the School had \$841,005 of temporarily restricted net assets related to contributed rent.

Permanently restricted net assets: Permanently restricted amounts are those which are subject to donor-imposed restrictions 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, 2018 and 2017, the School had no permanently restricted net assets.

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

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**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, 2018 and 2017 the balance of deposits exceeded FDIC limits by approximately \$240,600 and \$93,000, 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, 2018 and 2017, 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)**

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**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, 2018 and 2017.

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 \$920,235 and \$802,768 of in-kind contributions during the years ended June 30, 2018 and 2017, respectively, primarily consisting of rent for the School's building of approximately \$673,000 and \$555,000 in 2018 and 2017, respectively, and nursing services of approximately \$247,500 in 2018 and 2017.

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 69% and 70% of the School's support and revenue for the years ended June 30, 2018 and 2017, 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.

**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, 2018 and 2017 was \$23,306 and \$13,849, respectively.

Reclassifications

Reclassifications have been made to depreciation and interest expenses in the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in the net assets are unchanged due to these reclassifications.

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.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, "Revenue from Contracts with Customers," as amended by ASU 2015-14, which supersedes or replaces nearly all GAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. ASU 2014-09, as amended, is effective for certain Not-for-profit entities for annual reporting periods beginning after December 15, 2017 including interim reporting periods within that reporting period. The School is currently assessing the impact of this new standard.

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

New Accounting Pronouncements (Continued)

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU 2016-02 is effective for annual periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020 and requires a modified retrospective approach to adoption. The School is currently assessing the impact of this new standard.

FASB has issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial statements of Not-for-Profit Entities" ("ASU No. 2016"), intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The School is currently assessing the impact of this new standard.

**2. GRANTS AND CONTRIBUTIONS RECEIVABLE**

Grants receivable for the years ended June 30, 2018 and 2017 represented amounts due from the Indiana Department of Education relating to the following grants:

	<u>2018</u>	<u>2017</u>
Child Nutrition	\$ 5,697	\$ 6,486
School Safety Grant	-	48,242
eLearning	-	232
Title I	72,366	48,426
TOTAL	<u>\$ 78,063</u>	<u>\$ 103,386</u>

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 as of June 30, 2018 and 2017. The amount due within one year is \$672,804 and the amount due in one to five years is \$168,201.

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

**3. PROPERTY AND EQUIPMENT**

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

	<b>2018</b>	<b>2017</b>
Furniture and equipment	\$ 923,748	\$ 813,378
Computer hardware	847,373	832,105
Computer software	126,005	119,190
Leasehold improvements	3,415,806	3,285,091
Books and educational materials	539,370	539,370
Building and building improvements	4,798,294	4,758,294
Land	418,523	418,523
Vehicles	12,400	12,400
	<hr/>	<hr/>
Total property and equipment	11,081,519	10,778,351
Less: Accumulated depreciation	(4,615,821)	(4,162,314)
	<hr/>	<hr/>
<b>TOTAL PROPERTY AND EQUIPMENT, NET</b>	<b>\$ 6,465,698</b>	<b>\$ 6,616,037</b>

Depreciation expense was \$453,507 and \$389,975 for the years ended June 30, 2018 and 2017, respectively.

**4. OPERATING LEASES**

The School leases various equipment and facilities under separate operating leases expiring through June 2026. As of June 30, 2018 and 2017, \$728,405 and \$330,216, 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 \$672,803 and \$275,000 for the years ended June 30, 2018 and 2017, respectively.

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

2019	\$ 49,935
2020	49,935
2021	16,646
2022	1
2023	1
Thereafter	3
	<hr/>
<b>TOTAL</b>	<b>\$ 116,521</b>

**5. 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 2018 and 2017 were \$278,264 and \$327,029, respectively. The School has recorded a liability for its contribution to the Plan of \$31,953 and \$182,546 and is included in accrued expenses as of June 30, 2018 and 2017, 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 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 TRF is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Retirement plan expenses for PERF and TRF were \$104,187 and \$85,091 for the years ended June 30, 2018 and 2017, 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/](http://www.in.gov/inprs/).

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

**6. LONG-TERM DEBT ACTIVITY**

Long-term debt included the following at June 30,

	<u>2018</u>	<u>2017</u>
Bonds payable in semi-annual installments, including variable rate interest as noted below, through maturity in December 2025 (a)	\$ 921,187	\$ 982,145
Bonds payable in semi-annual installments, including interest computed at 7.75%, through maturity in July 2023 (b)	880,000	990,000
Bonds payable in semi-annual installments, including interest computed at 8.00%, through maturity in July 2029 (b)	1,385,000	1,385,000
Bonds payable in semi-annual installments, including interest computed at 9.00%, through maturity in July 2039 (b)	5,325,000	5,325,000
Total bonds payable	<u>8,511,187</u>	<u>8,682,145</u>
Note payable in monthly installments, including interest computed at 6.00%, through maturity in November 2019	40,996	-
Note payable in monthly installments, including interest computed at 5.00%, through maturity in October 2019	29,199	52,558
Total notes payable	<u>70,195</u>	<u>52,558</u>
Common school loan payable in semi-annual installments, including interest computed at 1.00%, through maturity in January 2027	770,950	861,650
Total bonds, notes and loans payable	9,352,332	9,596,353
Less: Debt issuance costs	(347,523)	(405,443)
Less: Current maturities	(329,254)	(285,017)
TOTAL LONG-TERM DEBT	<u>\$ 8,675,555</u>	<u>\$ 8,905,893</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 Federal Home Loan Banks rate plus 400 basis points, 6%, or the QZAB rate. As of June 30, 2018, the interest rate was 6.59%. The bond is collateralized by the building and assignment of rent and lease interest.

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

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**6. LONG-TERM DEBT ACTIVITY (Continued)**

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

For the year ended June 30, 2018, the School was in compliance with all financial covenants outlined in the bond agreement for bonds (b) above, with the exception of the fund balance, which the School did not meet. 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<sup>rds</sup> 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<sup>rds</sup> 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:

	<u>2018</u>	<u>2017</u>
Bond Principal Fund	\$ 120,870	\$ 110,000
Bond Interest Fund	336,702	333,388
Bond Reserve Fund	781,400	781,400
TOTAL	<u>\$ 1,238,972</u>	<u>\$ 1,224,788</u>

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

**6. LONG-TERM DEBT ACTIVITY (Continued)**

Total debt service requirements of loans payable for school activities as of June 30, 2018 were as follows for the years ending June 30,:

	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total Debt Service</b>
2019	\$ 329,254	\$ 718,068	\$ 1,047,322
2020	305,888	701,267	1,007,155
2021	303,776	685,438	989,214
2022	318,329	668,741	987,070
2023	338,166	650,791	988,957
Thereafter	7,756,919	6,902,145	14,659,064
<b>TOTAL</b>	<b>\$ 9,352,332</b>	<b>\$ 10,326,450</b>	<b>\$ 19,678,782</b>

Total interest expense during the years ended June 30, 2018 and 2017 was \$745,274 and \$748,407, respectively.

In July 2018, the School entered into an agreement with a consultant to facilitate debt refinancing. As part of the agreement, the School will pay the consultant a fee of 0.5% of the total gross amount of funds lent to the School. The estimated amount to be paid on refinancing in September 2018 is \$46,350.

On September 1, 2018, the School re-financed the Educational Facilities Revenue Bonds Series 2009 held at June 30, 2018 with Educational Facilities Revenue Bonds Series 2018A totaling \$8,915,000 and Educational Facilities Revenue Bonds Series 2018B totaling \$355,000 with an arbitrage rate of 5.939%. The bonds are payable beginning October 10, 2018 in varying monthly installments of principal and interest through maturity on June 20, 2048.

**7. CAPITAL LEASE COMMITMENTS**

The School leases equipment in the ordinary course of business. The School is obligated under a capital lease commitment with monthly payments of \$1,998 maturing in May 2023.

The assets and liabilities under the capital lease 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 \$95,496 and \$53,086 as of June 30, 2018 and 2017, respectively. Accumulated amortization of the leased equipment totaled \$8,274 and \$26,872 as of June 30, 2018 and 2017, respectively. The amortization of these assets under the capital lease is included in depreciation expense.

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

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**7. CAPITAL LEASE COMMITMENTS (Continued)**

At June 30, 2018 the required minimum capital lease payments are as follows for the years ended June 30,:

2019	\$ 22,919
2020	22,919
2021	22,919
2022	<u>21,910</u>
Total minimum lease payments	90,667
Less: Amount representing interest	<u>(13,035)</u>
Present value of future minimum lease payments	77,632
Less: Current portion of minimum lease payments	<u>(17,450)</u>
<b>LONG-TERM CAPITAL LEASE OBLIGATIONS</b>	<b><u><u>\$ 60,182</u></u></b>

**8. SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of financial position but arose after that date (that is, recognized subsequent events).

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through October 18, 2018, the date the financial statements were issued.

**SUPPLEMENTARY INFORMATION**

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**SCHEDULES OF FUNCTIONAL EXPENSES**

For the Years Ended June 30,

	2018					2017				
	Program	Management and General	Fundraising	Cost of Sales	Total	Program	Management and General	Fundraising	Cost of sales	Total
Salaries and benefits	\$ 4,416,572	\$ 1,045,338	\$ -	\$ -	\$ 5,461,910	\$ 4,634,231	\$ 964,445	\$ -	\$ -	\$ 5,598,676
Instructional services	98,185	-	-	-	98,185	56,002	-	-	-	56,002
Information technology	26,344	7,752	-	-	34,096	51,968	9,892	-	-	61,860
Accounting services	-	19,820	-	-	19,820	-	168,679	-	-	168,679
Other outside services	451,357	164,975	25,992	-	642,324	393,923	121,961	24,960	-	540,844
Course materials/supplies	96,314	-	-	-	96,314	59,249	-	-	-	59,249
Food	321,401	-	-	-	321,401	328,921	-	-	-	328,921
Travel and entertainment	27	192	-	-	219	63	167	-	-	230
Vehicle/transportation expense	34,959	-	-	-	34,959	23,574	-	-	-	23,574
Rent and facilities	962,633	169,876	-	-	1,132,509	662,170	116,853	-	-	779,023
Depreciation	385,481	68,026	-	-	453,507	322,791	67,184	-	-	389,975
Interest expense	642,171	103,103	-	-	745,274	644,834	103,573	-	-	748,407
Insurance	61,917	10,927	-	-	72,844	63,212	11,155	-	-	74,367
Advertising expenses	9,464	13,842	-	-	23,306	8,078	5,771	-	-	13,849
Small equipment purchases	95,781	-	-	-	95,781	56,347	-	-	-	56,347
Expenses before cost of sales	7,602,606	1,603,851	25,992	-	9,232,449	7,305,363	1,569,680	24,960	-	8,900,003
<b>COST OF SALES</b>										
Cost of direct benefit to donors	-	-	-	13,187	13,187	-	-	-	5,068	5,068
<b>TOTAL EXPENSES</b>	<b>\$ 7,602,606</b>	<b>\$ 1,603,851</b>	<b>\$ 25,992</b>	<b>\$ 13,187</b>	<b>\$ 9,245,636</b>	<b>\$ 7,305,363</b>	<b>\$ 1,569,680</b>	<b>\$ 24,960</b>	<b>\$ 5,068</b>	<b>\$ 8,905,071</b>

See accompanying notes to the financial statements.

**COMPLIANCE SECTION**

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Indianapolis, IN 46240  
317.842.4466

**SIKICH.COM**

**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, 2018, 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 October 18, 2018.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

## **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Sikich LLP*

Indianapolis, Indiana  
October 18, 2018

8555 N. River Rd., Suite 300  
Indianapolis, IN 46240  
317.842.4466

**SIKICH.COM**

**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, 2018. 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, 2018.

### **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  
October 18, 2018

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2018

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	FY 2017-2018	\$ 249,246
School Breakfast Program	10.553	FY 2017-2018	37,438
Total for Child Nutrition Cluster			<u>286,684</u>
Total for U.S. Department of Agriculture			<u>286,684</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Pass-through Indiana Department of Education			
Title I Grants to Local Educational Agencies	84.010*	2016-2017	24,178
		2017-2018	<u>546,151</u>
		<b>Total 84.010</b>	<u>570,329</u>
Special Education Grants to States (IDEA, Part B)	84.027	2017-2018	<u>169,790</u>
Improving Teacher Quality State Grants	84.367	2016-2017	79,303
		2017-2018	<u>51,217</u>
		<b>Total 84.367</b>	<u>130,520</u>
Total U.S. Department of Education			<u>870,639</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,157,323</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, 2018

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures and Federal Awards (the Schedule) includes the federal award activity of Irvington Community Schools, Inc. (the School) under programs of the federal government for the year ended June 30, 2018. 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, 2018.

**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, 2018.

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2018

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**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?                     Yes     No  
Significant deficiency(ies) identified?            Yes     None reported  
Noncompliance material to financial statements noted?    Yes     No

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified?                     Yes     No  
Significant deficiency(ies) identified?            Yes     None reported

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)                     Yes     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     No

**IRVINGTON COMMUNITY SCHOOLS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2018

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**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – Prior Period Follow Up**

<b>Prior Finding</b>	<b>Condition</b>	<b>Status</b>
2017-001	Material adjusting entries were recorded during the audit that affected 2017 and restated 2016.	Not Repeated