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February 10, 2020

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

We have reviewed the audit report of Irvington Community Schools, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for Irvington Community Schools, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

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

IRVINGTON COMMUNITY SCHOOLS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Irvington Community Schools, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Irvington Community Schools, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net deficit, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2019, and the changes in its net deficit, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Irvington Community Schools, Inc. as of and for the year ended June 30, 2018 were audited by another auditor whose report dated October 18, 2018 expressed an unmodified opinion on those statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2020 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.

DONOVAN



Indianapolis, Indiana
January 21, 2020

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 983,265	\$ 738,288
Grants receivable	51,494	78,063
Prepaid expenses	<u>26,930</u>	<u>93,940</u>
<i>Total current assets</i>	<u>1,061,689</u>	<u>910,291</u>
PROPERTY AND EQUIPMENT, NET	<u>6,527,842</u>	<u>6,465,698</u>
OTHER ASSETS		
In-kind contributions receivable	841,005	841,005
Restricted cash	<u>1,653,119</u>	<u>1,238,972</u>
<i>Total other assets</i>	<u>2,494,124</u>	<u>2,079,977</u>
TOTAL ASSETS	<u>\$ 10,083,655</u>	<u>\$ 9,455,966</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Current portion of capital lease obligation	\$ 18,847	\$ 17,450
Current portion of notes payable	98,486	153,108
Current portion of bonds payable	163,790	176,176
Accounts payable and accrued expenses	216,143	253,635
Accrued bond interest	<u>273,690</u>	<u>336,702</u>
<i>Total current liabilities</i>	<u>770,956</u>	<u>937,071</u>
LONG-TERM LIABILITIES		
Capital lease obligation	42,345	60,182
Notes payable, net of current portion	589,551	688,037
Bonds payable, net of current portion	9,962,641	8,335,011
Less: unamortized bond issuance costs	<u>(521,146)</u>	<u>(347,523)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>10,073,391</u>	<u>8,735,707</u>
<i>Total liabilities</i>	<u>10,844,347</u>	<u>9,672,778</u>
NET DEFICIT		
Net deficit, without donor restrictions	(1,601,697)	(1,057,817)
Net assets, with donor restrictions	<u>841,005</u>	<u>841,005</u>
<i>Total net deficit</i>	<u>(760,692)</u>	<u>(216,812)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 10,083,655</u>	<u>\$ 9,455,966</u>

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

IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIT
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
State education support	\$ 6,578,752	\$ 6,732,627
Grants	1,877,963	1,780,522
In-kind revenue	1,195,236	920,235
Student fees	239,239	239,138
Contributions	19,822	20,989
Fundraising	35,515	77,267
Interest	25,397	8,460
Other	<u>31,237</u>	<u>37,697</u>
<i>Total revenue and support</i>	<u>10,003,161</u>	<u>9,816,935</u>
EXPENSES		
Program services	8,301,900	7,893,795
Management and general	<u>1,377,137</u>	<u>1,351,517</u>
<i>Total expenses</i>	<u>9,679,037</u>	<u>9,245,312</u>
CHANGE IN NET DEFICIT FROM OPERATIONS	324,124	571,623
OTHER EXPENSE		
Loss on debt extinguishment	<u>(868,004)</u>	<u>-</u>
CHANGE IN NET DEFICIT	(543,880)	571,623
NET DEFICIT, BEGINNING OF YEAR	<u>(216,812)</u>	<u>(788,435)</u>
NET DEFICIT, END OF YEAR	<u>\$ (760,692)</u>	<u>\$ (216,812)</u>

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

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 3,726,560	\$ 925,309	\$ 4,651,869	\$ 3,573,312	\$ 943,291	\$ 4,516,603
Employee benefits	877,444	169,790	1,047,234	803,574	166,852	970,426
Occupancy	931,322	-	931,322	948,801	-	948,801
Professional services	770,499	66,122	836,621	465,555	46,656	512,211
Interest	597,748	-	597,748	745,275	-	745,275
Depreciation	494,839	-	494,839	453,508	-	453,508
Food costs	325,952	-	325,952	324,316	-	324,316
Repairs and maintenance	130,577	-	130,577	114,827	-	114,827
Classroom and office supplies	110,285	715	111,000	143,682	363	144,045
Clubs	96,391	-	96,391	76,836	-	76,836
Insurance	-	77,561	77,561	-	69,811	69,811
Software	60,060	-	60,060	58,967	7,580	66,547
Equipment	58,333	-	58,333	55,828	-	55,828
Authorizer fee	-	51,789	51,789	-	53,310	53,310
Advertising	-	42,226	42,226	-	23,306	23,306
Staff development	35,415	-	35,415	35,441	-	35,441
Student transportation	23,531	-	23,531	23,131	-	23,131
Other	62,944	43,625	106,569	70,742	40,348	111,090
<i>Total functional expenses</i>	<u>\$ 8,301,900</u>	<u>\$ 1,377,137</u>	<u>\$ 9,679,037</u>	<u>\$ 7,893,795</u>	<u>\$ 1,351,517</u>	<u>\$ 9,245,312</u>

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

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net deficit	\$ (543,880)	\$ 571,623
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	494,839	453,507
Amortization of debt issuance costs	13,363	57,920
Loss on debt extinguishment	868,004	-
Changes in certain assets and liabilities:		
Grants receivable	26,569	25,323
Prepaid expenses	67,010	(781)
Accounts payable and accrued expenses	(37,492)	(260,428)
Accrued bond interest	<u>(63,012)</u>	<u>3,314</u>
<i>Net cash provided by operating activities</i>	<u>825,401</u>	<u>850,478</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(556,983)</u>	<u>(175,064)</u>
FINANCING ACTIVITIES		
Proceeds from bonds payable	8,214,980	-
Principal payments on capital lease obligations	(16,440)	-
Principal payments on notes payable	(153,108)	(42,693)
Principal payments on bonds payable	<u>(7,654,726)</u>	<u>(261,628)</u>
<i>Net cash provided by (used in) financing activities</i>	<u>390,706</u>	<u>(304,321)</u>
NET CHANGE IN CASH	659,124	371,093
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>1,977,260</u>	<u>1,606,167</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u><u>\$ 2,636,384</u></u>	<u><u>\$ 1,977,260</u></u>
SUPPLEMENTAL INFORMATION		
Non-cash uses of bond proceeds:		
Bond issuance costs financed through bonds payable	\$ 532,120	\$ -
Bond tender premiums financed through bonds payable	522,900	-
Purchases of property and equipment through notes payable	-	60,300
Assets acquired under capital leases	-	67,804
Cash paid for interest	647,397	632,750

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

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Irvington Community Schools, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates as a public charter school under Indiana Code 20-24. The School is sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis. The charter is effective through June 30, 2023 and is renewable thereafter by mutual consent. The School served approximately 980 students in grades kindergarten through eight during the 2018-2019 school year.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis. Net assets as of June 30, 2019 and 2018 included \$841,005 of net assets with donor restrictions.

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

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the schools receive an amount per student in relation to the funding received by other public schools in the same geographic areas. 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 School's revenue is the product of cost reimbursement grants. Accordingly, the School recognized revenue under these grants in the amount of costs and expenses at the time they are incurred.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2019 and 2018.

Restricted Cash – The terms of the bonds payable require the School to establish cash accounts restricted for certain purposes including capital projects, debt service, and repair and replacement.

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

IRVINGTON COMMUNITY SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In-kind Contributions Receivable – The School leases its high school building from the Consolidated City of Indianapolis for \$1 in annual rent. The lease agreement requires a minimum fifteen-month notice of intent to terminate by the lessor. The balance of in-kind contributions receivable of \$841,005 as of both June 30, 2019 and 2018 represents an estimate of the fair market value of in-kind rent to be received by the School in the fifteen-month period following notice of termination of the lease.

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

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

Building and improvements	40 years
Furniture and equipment	5 years
Computer hardware and software	3 - 5 years
Textbooks and educational materials	3 years
Vehicles	5 years

Bond Issuance Costs – The School refinanced its Series 2009 bonds into Series 2018 bonds in September 2018 and incurred \$532,120 in bond issuance costs. The School capitalizes the costs of long-term debt issuance and amortizes those costs on the straight-line method over the life of the underlying bond debt of thirty years. Amortization expense was \$13,363 and \$57,920 for the years ended June 30, 2019 and 2018, respectively, and is included in interest expense.

Loss on Extinguishment of Debt – The Series 2009 bonds were retired simultaneously with the issuance of the Series 2018 bonds. The loss on extinguishment of debt reflected on the 2019 statement of changes in net deficit is comprised of write-off of the unamortized debt issuance costs of \$345,104 associated with the Series 2009 bonds and a \$522,900 bond tender premium paid to retire the Series 2009 bonds.

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 and expense in the accounting period in which they are received.

The School recorded approximately \$1,195,000 and \$920,000 of in-kind revenues during the years ended June 30, 2019 and 2018, respectively, primarily consisting of rent for the School's building of approximately \$673,000 in both 2019 and 2018, and nursing services of approximately \$522,000 and \$247,000 in 2019 and 2018, respectively.

IRVINGTON COMMUNITY SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributed Materials and Services, Continued – 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.

Taxes on Income – Irvington Community Schools, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2019 and 2018, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2015 are open to audit for both federal and state purposes.

Advertising – Advertising costs are expensed as incurred and amounted to \$42,226 and \$23,306 for the years ended June 30, 2019 and 2018, respectively.

Subsequent Events – The School evaluated subsequent events through January 21, 2020, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine if changes to the financial statements or related disclosures are required.

Reclassifications – Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net deficit.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 418,523	\$ 418,523
Building and improvements	8,481,629	8,214,091
Furniture and equipment	1,068,040	933,516
Computer hardware and software	1,061,837	963,619
Textbooks and educational materials	596,073	539,370
Vehicles	12,400	12,400
Less: accumulated depreciation	<u>(5,110,660)</u>	<u>(4,615,821)</u>
<i>Property and equipment, net</i>	<u>\$ 6,527,842</u>	<u>\$ 6,465,698</u>

IRVINGTON COMMUNITY SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 3 - OPERATING LEASES

The School leases various equipment and facilities under separate operating leases expiring through June 2026. The School incurred \$723,884 and \$728,405 of expense related to the leases during the years ended June 30, 2019 and 2018, respectively. Rent expense includes in-kind rent based on the value of the high school building rent of approximately \$673,000 for the years ended June 30, 2019 and 2018.

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

2020	\$	68,088
2021		68,088
2022		66,178
2023		45,169
2024		45,171

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Common School Loan payable in semi-annual installments, including interest computed at 1.00%, through maturity in January 2027	\$ 680,250	\$ 770,950
Note payable in monthly installments, including interest computed at 5.00%, through maturity in October 2019	7,787	29,199
Note payable in monthly installments, including interest computed at 6.00%, through maturity in November 2019, paid in full in 2019	-	40,996
	<u>688,037</u>	<u>841,145</u>
Less: current portion	<u>(98,486)</u>	<u>(153,108)</u>
Long-term portion	\$ <u>589,551</u>	\$ <u>688,037</u>

Principal maturities of notes payable are as follows for the years ending June 30:

2020	\$	98,486
2021 through 2024, each year		90,700
Thereafter		<u>226,751</u>
Total	\$	<u><u>688,037</u></u>

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 5 - BONDS PAYABLE

Bonds payable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Bonds payable in semi-annual installments, including interest computed at rates ranging from 5.50% to 6.00%, through maturities in July 2021 to July 2048 (a)	\$ 9,270,000	\$ -
Bonds payable in semi-annual installments, including variable rate interest as noted below, through maturity in December 2025 (b)	856,431	921,187
Bonds payable in semi-annual installments, including interest computed at rates ranging from 7.75% to 9.00%. Retired in 2019. (c)	-	7,590,000
	<u>10,126,431</u>	<u>8,511,187</u>
Less: current portion	<u>(163,790)</u>	<u>(176,176)</u>
Long-term portion	<u>\$ 9,962,641</u>	<u>\$ 8,335,011</u>

- (a) Education Facilities Revenue Bonds, Series 2018A and Series 2018B. The bonds are collateralized by the building.
- (b) Qualified Zone Academy Bond (QZABs). Under the American Recover 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, 2019, the interest rate was 6.17%. The bond is collateralized by the building and assignment of rent and lease interest.
- (c) Education Facilities Revenue Bonds, Series 2009.

On September 1, 2018 the School refinanced the Educational Facilities Revenue Bonds Series 2009 with Educational Facilities Revenue Bonds Series 2018A totaling \$8,915,000 and Educational Facilities Revenue Bonds Series 2018B totaling \$355,000.

The bond agreements contain certain covenants that limit the School's ability to create liens, incur debt, and change management. The bond agreements also contain covenants requiring the maintenance of required reserves and establishes a minimum debt service coverage ratio.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 5 - BONDS PAYABLE, Continued

Principal maturities of bonds payable are as follows for the years ending June 30:

2020	\$ 163,790
2021	203,076
2022	217,629
2023	227,466
2024	242,604
Thereafter	<u>9,071,866</u>
 Total	 \$ <u>10,126,431</u>

NOTE 6 - CAPITAL LEASE OBLIGATION

The School leases equipment under a capital lease obligation 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 generally expects to purchase the leased equipment. The leased equipment has a cost of \$95,496 as of June 30, 2019 and 2018. The amortization of these assets under the capital lease is included in depreciation expense.

At June 30, 2019, the required minimum capital lease payments are as follows for the years ended June 30:

2020	\$ 22,919
2021	22,919
2022	<u>22,919</u>
 Total minimum lease payments	 68,757
Less: Amount representing interest	<u>(7,565)</u>
 Present value of future minimum lease payments	 61,192
Less: current portion	<u>(18,847)</u>
 Long-term portion	 \$ <u>42,345</u>

IRVINGTON COMMUNITY SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 7 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans 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. Under the plans, the School contributed 7.5% of compensation for electing teaching faculty to TRF and 11.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2018 (the latest year reported), both TRF and PERF were approximately 80% funded.

In lieu of participating in either the TRF or PERF plans, full-time employees have the option to participate in a 403(b) defined contribution retirement plan. The School made discretionary contributions to the 403(b) plan equal to 7.5% of participants' salaries. The School has recorded a liability for its contribution to the plan of \$33,713 and \$31,953 and is included in accounts payable as of June 30, 2019 and 2018, respectively.

Retirement plan expense under all plans was \$300,036 and \$382,451 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Marion and surrounding counties in Indiana and is subject to the risks of economic and competitive forces at work within this geographic area.

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

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of grants receivables from the State of Indiana. At June 30, 2019 and 2018, all of the grants receivable balance was due from the State of Indiana. In addition, deposits maintained at Huntington and Horizon Banks are insured up to the FDIC insurance limit of \$250,000. Funds held exceeded the FDIC insurance limit as of June 30, 2019.

IRVINGTON COMMUNITY SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 9 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash, restricted cash, and grants receivable and total \$2,687,878 as of June 30, 2019. Of this amount, \$1,034,759 in cash and grants receivable are available to meet cash needs for general expenditures within one year.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 10 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

SUPPLEMENTARY INFORMATION

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 38,523
National School Lunch Program	10.555		253,561
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		<u>31,024</u>
<i>Total U.S Department of Agriculture</i>			<u>323,108</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Grants to Local Educational Agencies	84.010	18611-001-PN01	545,794
Title II, Supporting Effective Instruction State Grants	84.367	7000-S367A180013	44,983
Title III, English Language Acquisition State Grants	84.365	51119-286	6,300
Title IV, Student Support and Academic Enrichment	84.424A	7000-S424A180015	43,053
Special Education Cluster			
Special Education - Grants to States	84.027A	19611-506-PN01	165,848
Charter School Program Quality Counts	84.282A	U282A170017	<u>23,706</u>
<i>Total U.S. Department of Education</i>			<u>829,684</u>
<i>Total federal awards expended</i>			<u>\$ 1,152,792</u>

See independent auditors' report and accompanying notes to this schedule

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of 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, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, change in net deficit, functional expenses, or cash flows of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



Donovan CPAs

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

The Board of Directors
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., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net deficit, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 21, 2020.

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 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 may exist that have not been identified.

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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 Irvington Community Schools, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Irvington Community Schools, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent 'D'.

Indianapolis, Indiana
January 21, 2020



Donovan CPAs

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

The Board of Directors
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 U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on Irvington Community Schools, Inc.'s major federal programs for the year ended June 30, 2019. Irvington Community Schools, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and 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.

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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, 2019.

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 as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

DONOVAN



Indianapolis, Indiana
January 21, 2020

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiency identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

Dollar threshold use to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

No matters are reportable.

III. Federal Award Findings and Questioned Costs

No matters are reportable.

IRVINGTON COMMUNITY SCHOOLS, INC.
OTHER REPORT
For the Year Ended June 30, 2019

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

Supplemental Audit Report of Irvington Community Schools, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.