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December 8, 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, 2019 to June 30, 2020. 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, 2020 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding included in the report on pages 23-24. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's Corrective Action Plan appears on page 25.

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, CPA
State Examiner

IRVINGTON COMMUNITY SCHOOLS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2020 and 2019



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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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and change in net assets (deficit), functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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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, 2020 and 2019, and the changes in its net assets (deficit), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were 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 November 20, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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
November 20, 2020

IRVINGTON COMMUNITY SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,400,024	\$ 983,265
Grants receivable	168,337	51,494
Prepaid expenses	<u>90,728</u>	<u>26,930</u>
<i>Total current assets</i>	<u>2,659,089</u>	<u>1,061,689</u>
PROPERTY AND EQUIPMENT, NET	<u>6,927,037</u>	<u>6,527,842</u>
OTHER ASSETS		
In-kind contributions receivable	841,005	841,005
Restricted cash	<u>1,026,357</u>	<u>1,653,119</u>
<i>Total other assets</i>	<u>1,867,362</u>	<u>2,494,124</u>
TOTAL ASSETS	<u><u>\$ 11,453,488</u></u>	<u><u>\$ 10,083,655</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Current portion of capital lease obligation	\$ 20,357	\$ 18,847
Current portion of notes payable	90,700	98,486
Current portion of bonds payable	203,076	163,790
Accounts payable and accrued expenses	100,492	216,143
Refundable advances - CARES Act funding	479,392	-
Accrued bond interest	<u>270,840</u>	<u>273,690</u>
<i>Total current liabilities</i>	<u>1,164,857</u>	<u>770,956</u>
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	21,988	42,345
Notes payable, net of current portion	498,850	589,551
Bonds payable, net of current portion	9,759,565	9,962,641
Less: unamortized bond issuance costs	<u>(503,329)</u>	<u>(521,146)</u>
<i>Total long-term liabilities, net of unamortized bond issuance costs</i>	<u>9,777,074</u>	<u>10,073,391</u>
<i>Total liabilities</i>	<u>10,941,931</u>	<u>10,844,347</u>
NET ASSETS (DEFICIT)		
Net deficit, without donor restrictions	(329,448)	(1,601,697)
Net assets, with donor restrictions	<u>841,005</u>	<u>841,005</u>
<i>Total net assets (deficit)</i>	<u>511,557</u>	<u>(760,692)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u><u>\$ 11,453,488</u></u>	<u><u>\$ 10,083,655</u></u>

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

IRVINGTON COMMUNITY SCHOOLS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 7,169,904	\$ 6,578,752
Grants	2,011,197	1,877,963
In-kind revenue	1,195,236	1,195,236
CARES Act funding	695,608	-
Student fees	188,055	239,239
Contributions	29,419	19,822
Fundraising	34,211	35,515
Interest	14,476	25,397
Other	<u>43,240</u>	<u>31,237</u>
<i>Total revenue and support</i>	<u>11,381,346</u>	<u>10,003,161</u>
EXPENSES		
Program services	8,541,814	8,301,900
Management and general	<u>1,567,283</u>	<u>1,377,137</u>
<i>Total expenses</i>	<u>10,109,097</u>	<u>9,679,037</u>
CHANGE IN NET ASSETS (DEFICIT) FROM OPERATIONS	1,272,249	324,124
OTHER EXPENSE		
Loss on debt extinguishment	<u>-</u>	<u>(868,004)</u>
CHANGE IN NET ASSETS (DEFICIT)	1,272,249	(543,880)
NET DEFICIT, BEGINNING OF YEAR	<u>(760,692)</u>	<u>(216,812)</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 511,557</u>	<u>\$ (760,692)</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, 2020 and 2019

	2020			2019		
	<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	\$ 3,911,451	\$ 1,072,175	\$ 4,983,626	\$ 3,726,560	\$ 925,309	\$ 4,651,869
Employee benefits	869,757	214,509	1,084,266	877,444	169,790	1,047,234
Occupancy	910,775	-	910,775	931,322	-	931,322
Professional services	763,341	65,844	829,185	770,499	66,122	836,621
Depreciation	612,358	-	612,358	494,839	-	494,839
Interest	570,986	-	570,986	584,385	-	584,385
Food costs	310,454	-	310,454	325,952	-	325,952
Classroom and office supplies	175,301	3,475	178,776	110,285	715	111,000
Repairs and maintenance	115,755	-	115,755	130,577	-	130,577
Software	88,832	-	88,832	60,060	-	60,060
Insurance	-	78,841	78,841	-	77,561	77,561
Authorizer fee	-	56,950	56,950	-	51,789	51,789
Equipment	51,573	-	51,573	58,333	-	58,333
Advertising	-	50,527	50,527	-	42,226	42,226
Staff development	40,041	-	40,041	35,415	-	35,415
Student transportation	23,791	-	23,791	23,531	-	23,531
Clubs	18,099	-	18,099	96,391	-	96,391
Amortization	17,817	-	17,817	13,363	-	13,363
Other	61,483	24,962	86,445	62,944	43,625	106,569
<i>Total functional expenses</i>	<u>\$ 8,541,814</u>	<u>\$ 1,567,283</u>	<u>\$ 10,109,097</u>	<u>\$ 8,301,900</u>	<u>\$ 1,377,137</u>	<u>\$ 9,679,037</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ 1,272,249	\$ (543,880)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation	612,358	494,839
Amortization of debt issuance costs	17,817	13,363
Loss on debt extinguishment	-	868,004
Changes in certain assets and liabilities:		
Grants receivable	(116,843)	26,569
Prepaid expenses	(63,798)	67,010
Accounts payable and accrued expenses	(115,651)	(37,492)
Refundable advances	479,392	-
Accrued bond interest	(2,850)	(63,012)
	<u>2,082,674</u>	<u>825,401</u>
<i>Net cash provided by operating activities</i>		
	<u>2,082,674</u>	<u>825,401</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(1,011,553)	(556,983)
	<u>(1,011,553)</u>	<u>(556,983)</u>
FINANCING ACTIVITIES		
Proceeds from bonds payable	-	8,214,980
Principal payments on capital lease obligation	(18,847)	(16,440)
Principal payments on notes payable	(98,487)	(153,108)
Principal payments on bonds payable	(163,790)	(7,654,726)
	<u>(281,124)</u>	<u>390,706</u>
<i>Net cash provided by (used in) financing activities</i>		
	<u>(281,124)</u>	<u>390,706</u>
NET CHANGE IN CASH	789,997	659,124
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>2,636,384</u>	<u>1,977,260</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 3,426,381</u>	<u>\$ 2,636,384</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
Cash paid for interest	573,836	647,397

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, 2020 and 2019

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 three public charter schools under Indiana Code 20-24; an elementary school, a middle school, and a high school. 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 1,030 students in grades kindergarten through twelve during the 2019-2020 school year and 980 students during the 2018-2019 school year.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions, which include unrestricted resources that are available for the operating objectives of the School; and
- net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

Basis of Accounting and Use of Estimates – The School prepares its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 three 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.

The School has elected to defer implementation of Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

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, 2020 and 2019.

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.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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, 2020 and 2019 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. Accumulated amortization was \$28,791 and \$10,974 as of June 30, 2020 and 2019, respectively.

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 the 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.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributed Materials and Services, Continued – 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 of in-kind revenues during the years ended June 30, 2020 and 2019, primarily consisting of rent for the School's building of approximately \$673,000 in both 2020 and 2019, and nursing services of approximately \$522,000 during both years ended June 30, 2020 and 2019.

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 U.S. GAAP.

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, 2020 and 2019, 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 2016 are open to audit for both federal and state purposes.

Advertising – Advertising costs are expensed as incurred and amounted to \$50,527 and \$42,226 for the years ended June 30, 2020 and 2019, respectively.

Subsequent Events – The School evaluated subsequent events through November 20, 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.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 2 - PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land	\$ 418,523	\$ 418,523
Building and improvements	8,766,598	8,481,629
Furniture and equipment	1,507,400	1,068,040
Computer hardware and software	1,285,177	1,061,837
Textbooks and educational materials	630,608	596,073
Vehicles	41,749	12,400
Less: accumulated depreciation	<u>(5,723,018)</u>	<u>(5,110,660)</u>
<i>Property and equipment, net</i>	<u>\$ 6,927,037</u>	<u>\$ 6,527,842</u>

NOTE 3 - CARES ACT FUNDING AND REFUNDABLE ADVANCE

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which includes a Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from PPP note payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On April 23, 2020, the School was granted a note payable from The Huntington National Bank in the amount of \$1,175,000, pursuant to the PPP under Division A, Title I of the CARES Act. The note matures on April 23, 2022 and bears interest at a rate of 1.00%. Under the terms of the PPP, the note payable will be forgiven if the funds are used for qualifying expenses as described in the CARES Act. The School has evaluated the expenses to which these funds were applied and has determined the note payable requirements will be met and therefore will be forgiven for the \$695,608 in allowable expenses incurred through June 30, 2020. The School has elected to recognize these funds as a contribution in accordance with FASB ASC 958-605 by reflecting the amount of funds expended during the year ended June 30, 2020 as revenue. The remaining unspent portion of \$479,392 is reflected as a refundable advance until such time as the funds can be spent for an allowable purpose.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - BONDS PAYABLE

Bonds payable consisted of the following as of June 30:

	<u>2020</u>	<u>2019</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)	\$ 9,175,000	\$ 9,270,000
Bonds payable in semi-annual installments, including variable rate interest as noted below, through maturity in December 2025 (b)	<u>787,641</u>	<u>856,431</u>
	9,962,641	10,126,431
Less: current portion	<u>(203,076)</u>	<u>(163,790)</u>
Long-term portion	\$ <u>9,759,565</u>	\$ <u>9,962,641</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, 2020, the interest rate was 6.17%. The bond is collateralized by the building and assignment of rent and lease interest.

On September 1, 2018 the School refinanced 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. The School was compliance with all bond covenants as of June 30, 2020 and 2019.

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

2021	\$ 203,076
2022	217,629
2023	227,466
2024	242,604
2025	253,062
Thereafter	<u>8,818,804</u>
Total	\$ <u>9,962,641</u>

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Common School Loan payable in semi-annual installments, including interest computed at 1.00%, through maturity in January 2027	\$ 589,550	\$ 680,250
Note payable in monthly installments, including interest computed at 5.00%, repaid in full in October 2019	-	7,787
	<u>589,550</u>	<u>688,037</u>
Less: current portion	<u>(90,700)</u>	<u>(98,486)</u>
Long-term portion	\$ <u>498,850</u>	\$ <u>589,551</u>

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

2021 through 2025, each year	\$ 90,700
Thereafter	<u>136,050</u>
Total	\$ <u>589,550</u>

NOTE 6 - OPERATING LEASES

The School leases various equipment and facilities under separate operating leases expiring through June 2026. The School incurred \$718,424 and \$723,884 of expense related to the leases during the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

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

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

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 7 - CAPITAL LEASE OBLIGATION

The School leases equipment under a capital lease obligation with monthly payments of \$1,910 maturing in May 2022.

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 terms 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. The amortization of these assets under the capital lease is included in depreciation expense.

The required minimum capital lease payments and present value of future minimum lease payments are as follows for the years ending June 30:

2021	\$	22,919
2022		<u>22,919</u>
Total minimum lease payments		45,838
Less: amount representing interest		<u>(3,493)</u>
Present value of future minimum lease payments		42,345
Less: current portion		<u>(20,357)</u>
Long-term portion	\$	<u><u>21,988</u></u>

NOTE 8 - 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 5.5% 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, 2019 (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. Retirement plan expense under all plans was \$272,509 and \$300,036 for the years ended June 30, 2020 and 2019, respectively.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 9 - 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, 2020 and 2019, 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, 2020 and 2019.

NOTE 10 - LIQUIDITY

The School's financial assets include cash, restricted cash, and grants receivable. Following is a schedule of financial assets and the ability thereof to meet cash needs as of June 30:

	<u>2020</u>	<u>2019</u>
Financial assets	\$ 3,594,718	\$ 2,687,878
Less those unavailable for general expenditures within one year, due to:		
Deposits with bond trustee	<u>(1,026,357)</u>	<u>(1,653,119)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>2,568,361</u>	\$ <u>1,034,759</u>

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.

IRVINGTON COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 11 - 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 (deficit). 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, 2020

<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		\$ 55,105
COVID-19 - School Breakfast Program	10.553		5,731
National School Lunch Program	10.555		221,797
COVID-19 - National School Lunch Program	10.555		<u>19,662</u>
<i>Total U.S Department of Agriculture</i>			<u>302,295</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	525,691
Title II, Supporting Effective Instruction State Grants	84.367	7000-S367A190013	39,033
Title III, English Language Acquisition State Grants	84.365		4,651
Title IV, Student Support and Academic Enrichment	84.424A	S424A190015	11,270
Special Education Cluster			
Special Education - Grants to States	84.027A	20611-506-PN01	169,908
Charter School Program Quality Counts	84.282A		<u>29,081</u>
<i>Total U.S. Department of Education</i>			<u>779,634</u>
<i>Total federal awards expended</i>			<u>\$ 1,081,929</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, 2020

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, 2020. 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 assets (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. (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and change in net assets (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 November 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School'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 letters are cursive and slightly slanted to the right.

Indianapolis, Indiana
November 20, 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 (the "School") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, the School 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, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-01. Our opinion on each major federal program is not modified with respect to this matter.

The School's response to the noncompliance finding identified in our audit is described in the corrective action plan on page 25. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-01, that we consider to be a material weakness.

The School's response to the internal control over compliance finding identified in our audit is described in the corrective action plan on page 25. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN

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

Indianapolis, Indiana
November 20, 2020

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

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?	Yes
• 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)?	Yes
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	School Breakfast Program
	National School Lunch Program

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.

IRVINGTON COMMUNITY SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

III. Federal Award Findings and Questioned Costs

FINDING 2020-01 CASH MANAGEMENT
MATERIAL WEAKNESS

Criteria

Per 7 CFR 210.14(b) and 7 CFR 220.7(e)(1)(iv), the “school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency”.

Condition

Based on the School’s expense reporting, a three months average of expenditures would be approximately \$113,000. The School was carrying a balance in excess of the three months average of expenditures in all twelve months, including a balance of approximately \$175,000 as of June 30, 2020, after subtracting prepaid balances.

Cause

The School has not properly monitored the balance of these funds to make sure funds were expended in a manner to allow for compliance with federal guidelines.

Effect

This material weakness in internal control resulted in the School having an excessive cash balance in its meal program funds and not being in compliance with 7 CFR 210.14(b) and 7 CFR 220.7(e)(1)(iv).

Recommendation

We recommend the School develop internal controls to allow for closer monitoring of the balance of these funds. We also recommend the School proactively communicate the cash management finding to the Indiana Department of Education to discuss a remedial plan of action.

Views of Responsible Officials

The School’s Corrective Action Plan is included on page 25.

IRVINGTON COMMUNITY SCHOOLS, INC.
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2020

FINDING 2020-01 CASH MANAGEMENT
MATERIAL WEAKNESS

Condition

Based on the School's expense reporting, a three months average of expenditures would be approximately \$113,000. The School was carrying a balance in excess of the three months average of expenditures in all twelve months, including a balance of approximately \$175,000 as of June 30, 2020, after subtracting prepaid balances.

Response

Management was unaware of the three-month rule regarding the school lunch fund as the balance of all funds are reviewed monthly. Monitoring will continue monthly with an emphasis on calculating the three-month average of expenditures and comparing to the net cash position of the fund.

Without having a dedicated Food Service Coordinator, the duties for such has been distributed across three individuals whose expenses have not been allocated to the food service fund. Those expenses dating back to July 2019 will be calculated and charged in October 2020. Moving forward those expenses will be charged monthly to the food service fund.

Starting in January 2021 an internal candidate will transition into the Food Service Coordinator role that will be charged to the food service fund. This will then eliminate the cost allocation to the food service fund for the three individuals handling portions of that role.

On October 30, 2020 management replied to a request from Joe Olivadoti, Indiana Department of Education Financial Specialist, outlining the same steps above will be taken to correct the overage in the food service cash fund.

IRVINGTON COMMUNITY SCHOOLS, INC.
OTHER REPORT
For the Year Ended June 30, 2020

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*.