



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

B44649

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

December 30, 2014

Charter School Board  
21<sup>st</sup> Century Charter School @ Gary, Inc.  
556 Washington Street  
Gary, IN 46402

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Crowe Horwath LLP, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the 21<sup>st</sup> Century Charter School @ Gary, Inc., as of June 30, 2014, 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 status of a prior audit finding in the report. Page 20 contains the status of the prior audit finding.

In addition to the report presented herein, a Supplemental Audit Report for 21<sup>st</sup> Century Charter School @ Gary, 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

**21<sup>st</sup> CENTURY CHARTER SCHOOL @ GARY, INC.**

**FINANCIAL STATEMENTS**

June 30, 2014

21<sup>ST</sup> CENTURY CHARTER SCHOOL @ GARY, INC.

FINANCIAL STATEMENTS

June 30, 3014

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION.....	3
STATEMENT OF ACTIVITIES .....	4
STATEMENT OF CASH FLOW .....	5
NOTES TO FINANCIAL STATEMENTS .....	6
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	12
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	14
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON THE INTERNAL CONTROL OVER COMPLIANCE.....	16
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	18
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS .....	20
OTHER REPORT .....	21

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
21<sup>st</sup> Century Charter School @ Gary, Inc.  
Gary, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of 21st Century Charter School @ Gary, Inc. (the School), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities 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.

---

(Continued)

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Charter School @ Gary, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 1 to the financial statements, an error in the prior year was discovered by management of the School during the current year. An adjustment has been made to net assets as of July 1, 2013 to correct those errors. Our opinion is not modified with respect to that matter.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014 on our consideration of the School'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 the School's internal control over financial reporting and compliance.

*Crowe Horwath LLP*

Crowe Horwath LLP

Indianapolis, Indiana  
October 30, 2014

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2014

---

	2014
<b>ASSETS</b>	
Cash and cash equivalents	\$ 38,248
Restricted cash	1,809,653
Grants receivable	480,633
Prepaid expenses	19,294
Due from related parties (Note 4)	75,849
Bond issue costs	716,365
Property and equipment, net (Note 2)	<u>12,230,181</u>
Total assets	<u>\$ 15,370,223</u>
<b>LIABILITIES AND NET ASSETS</b>	
Accounts payable and accrued expenses	\$ 562,901
Due to related parties (Note 4)	272,441
Bonds and notes payable (Note 3)	<u>13,521,254</u>
Total liabilities	<u>14,356,596</u>
Net Assets	
Unrestricted	<u>1,013,627</u>
Total liabilities and net assets	<u>\$ 15,370,223</u>

---

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014

---

	<u>2014</u>
<b>Public support and revenues</b>	
Federal grants	\$ 1,876,414
State and local grants	4,911,289
Rental Income	300,000
Loss on disposal of equipment	<u>(20,514)</u>
Total revenue and support	<u>7,067,189</u>
<b>Expenses</b>	
Federal grant funded program activities	1,534,947
State and local grant funded program activities	2,434,160
School operations and building services	2,049,940
Education supporting services	<u>450,000</u>
Total program expenses	6,469,047
Management and general	<u>26,512</u>
Total expenses	<u>6,495,559</u>
Change in net assets	571,630
Net assets as of July 1, 2013	(353,376)
Prior period adjustment (Note 1)	<u>795,373</u>
Net assets as of July 1, 2013 (as restated)	<u>441,997</u>
Net assets, end of year	<u>\$ 1,013,627</u>

---

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2014

---

	<u>2014</u>
<b>Cash flows from operating activities</b>	
Change in net assets	\$ 571,630
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization	568,568
Loss on disposal of property and equipment	20,514
Change in assets and liabilities:	
Grants receivable	(311,202)
Prepaid expenses	(19,294)
Due to/from related parties	290,944
Accounts payable and accrued other expenses	<u>(6,815)</u>
Net cash from operating activities	<u>1,114,345</u>
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(7,276,607)
Proceeds from restricted cash	<u>6,026,290</u>
Net cash from investing activities	<u>(1,250,317)</u>
<b>Cash flows from financing activities</b>	
Principal payments on notes payable	<u>(79,602)</u>
Net cash used by financing activities	<u>(79,602)</u>
Net change in cash and cash equivalents	(215,574)
Cash and cash equivalents, beginning of year	<u>253,822</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 38,248</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 370,979

---

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2014

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Organization: 21st Century Charter School @ Gary, Inc. (the School) is a nonprofit corporation established to operate a charter school. The School is dedicated to ensure that all students show growth in character, academics, life skills, the arts, and wellness using teaching skills tailored to meet the needs of each student.

The School was established under the laws of the State of Indiana, and operates under a Board of School Directors form of government. The financial statements of the School are consolidated into the Greater Education Opportunities Foundation (GEOF) financial statements due to economic control.

Method of Accounting: The School maintains its accounts on the accrual basis of accounting and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income Taxes: The School is exempt from income taxes on income from related activities under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the School is not considered to be a private foundation under Section 509(a) of the Internal Revenue Code.

The School has adopted applicable guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that 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 benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

The School is no longer subject to examination by taxing authorities for years before 2011. The School does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The School recognizes interest and/or penalties related to income tax matters in income tax expense. The School did not have any amounts accrued for interest and penalties at June 30, 2014.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000. For the purpose of the statement of cash flows, the School considers all highly liquid debt instruments, if any, purchased with a maturity of three months or less to be cash equivalent.

Restricted Cash: Restricted cash consists of funds held in trust accounts for capital expenditures and debt service reserves.

Grants Receivable: Grants receivable balances consist of amounts billed or billable for services provided or contracted. The School does not accrue interest on any of its grants receivables.

Allowances: No allowance for doubtful accounts is recorded as of June, 30, 2014. The allowances are based upon prior experience and management's analysis of specific receivables and promises to give. Losses are charged off to the reserve when management deems further collection efforts will no longer produce additional recoveries. The School currently considers all receivables to be fully collectible.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2014

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment: Expenditures for property and equipment and items in excess of \$500 which substantially increase the useful lives of existing assets are capitalized at cost or at fair value at date of gift. Repairs and maintenance costs are expensed as incurred. Depreciation has been computed on straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

Buildings and improvements	39 years
Property and equipment	3-7 years

Impairment of Long-Lived Assets: In accordance with GAAP, the School reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. As of June 30, 2014, management believes that no impairment exists.

Bond issuance costs: All fees and other costs relative to the issuance of the tax-exempt bonds have been recorded as an asset and amortized over the life of the related bonds. Accumulated amortization as of June 30, 2014 is \$99,929.

Fair Value of Financial Instruments: Cash and cash equivalents and accounts payable approximate fair value because of the short maturity of these instruments. Grants receivable are not readily marketable. The School has estimated their fair value to be the carrying value. The carrying value of all the School's financial instruments, approximate fair value, except for bonds and notes payable. The fair value of the School's bonds and notes payable is estimated based on quoted market prices for the same or similar issues. The fair value of bonds and notes payable for the bondholders at June 30, 2014 was approximately \$13,379,546.

The fair values of financial instruments other than investments, which include the items listed in the preceding paragraph, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1 inputs - market approach). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk (Level 2 inputs - income approach). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future.

Basis of Presentation: The School follows GAAP and reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – The unrestricted net asset class includes general assets and liabilities of the School. The unrestricted net assets of the School may be used at the discretion of management to support the School's purposes and operations.

Temporarily Restricted Net Assets – The temporarily restricted net asset class includes assets of the School related to gifts and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. The School had no temporarily restricted net assets as of June 30, 2014.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2014

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Permanently Restricted Net Assets – The permanently restricted net asset class includes assets of the School related to contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School had no permanently restricted net assets as of June 30, 2014.

Federal and State Grants: Support funded by grants is recognized as the School performs the contracted services under various grant agreements. Grant revenue is typically recognized as earned as the eligible expenses are incurred. Some of the School’s grant agreements are not on a cost reimbursement basis, and support is recognized when earned. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Functional and Allocated Expenses: Expenses are charged directly to activities when specifically identifiable. All other costs are allocated to the activities based upon various actual statistical bases. Salaries and related expenses are charged based on the relative amount of time historically spent by personnel.

Advertising: The School expenses advertising costs as incurred. During 2014, expenses totaling \$17,135 were incurred for advertising.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2014, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2014. Management has performed their analysis through October 30, 2014, the date the financial statements were issued.

Restatement: During 2014, management determined that the previously issued financial statements in conformity with accounting standards adopted by the Governmental Accounting Standards Board (GASB) were incorrect. Management believes, that based on the governance structure of the School, the financial statements of the School should be accounted for under standards adopted by the Financial Accounting Standards Board (FASB). The only material change affecting net assets from the prior presentation relate to the accounting for bond issuance costs, which were previously expensed under GASB Statement No. 65. The impact of the restatement on the 2013 change in net assets would have been an increase of \$795,373. Unrestricted net assets have been restated by \$795,373 to capitalize the net unamortized bond issuance costs at July 1, 2013 as follows:

	<u>Unrestricted Net Assets</u>
July 1, 2013 net assets	\$ (353,376)
Restatement- basis of accounting	<u>795,373</u>
July 1, 2013 net assets, as restated	<u>\$ 441,997</u>

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2014

---

**NOTE 2 - PROPERTY AND EQUIPMENT**

At June 30, the carrying value of land, buildings and building improvements, and equipment, consists of the following:

	<u>2014</u>
Land	\$ 296,500
Building and building improvements	11,261,897
Equipment	<u>2,189,744</u>
	13,277,579
Less: accumulated depreciation	<u>(1,517,961)</u>
	<u>\$ 12,230,181</u>

Depreciation expense for the year ended June 30, 2014 was \$489,560. Interest incurred on construction related debt in the amount of \$470,563 was capitalized during 2014 and is included in property and equipment as of June 30, 2014.

**NOTE 3 – BONDS AND NOTES PAYABLE**

Bonds and notes payable consisted of the following at June 30, 2014:

Series 2013A bonds payable, maturing in March 2033, including interest computed at 6%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013.	\$ 5,525,000
Series 2013A bonds payable, maturing in March 2043, including interest computed at 6.25%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013.	7,355,000
Series 2013B bonds payable, maturing in March 2018, including interest computed at 7%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013.	620,000
Note payable to GEO Foundation for the lease of computer equipment, payable in monthly payments with an imputed interest rate of 9.50% through maturity in July 2014.	20,154
Loan payable in monthly installments, including interest computed at 5.45%, through maturity in August 2014. Secured by equipment.	<u>1,100</u>
Total bonds and notes payable	<u>\$ 13,521,254</u>

---

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2014

---

**NOTE 3 – BONDS AND NOTES PAYABLE** (Continued)

The estimated future principal payments due on long term debt are:

2015	\$	196,254
2016		190,000
2017		205,000
2018		215,000
2019		230,000
Thereafter		<u>12,485,000</u>
	\$	<u>13,521,254</u>

Total interest expense during the year ended June 30, 2014 was \$370,318. The School has various financial and nonfinancial covenants associated with the debt obligations, for which they reported compliance as of June 30, 2014.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The School has a management agreement with the Greater Educational Opportunities Foundation (GEOF). Under the management agreement, GEOF charges administrative and per student fees in exchange for the management, operation, administration, payroll and accounting services provided. During the year ended June 30, 2014, the School paid GEOF fees of \$350,000. As part of the management services provided, GEOF acts as the payor of certain operating expenses, which are reimbursed to GEOF by the School. The School's board retains final authority and responsibility for financial and budgetary commitments. At June 30, 2014, the School has a payable to GEOF for \$218,530 for various transactions and a receivable from GEOF in the amount of \$74,973 for overpayment of administrative fees. There is also a notes payable to GEOF as disclosed in Note 3.

The School leases space to Gary Middle College, Inc. which expires on June 30, 2015. Rent income totaled \$300,000 for the year ended June 30, 2014. The School has a receivable from Gary Middle College, Inc. of \$876 and a payable to Gary Middle College, Inc. for \$2,111 as of June 30, 2014, for various transactions from the rental agreement.

The School also has a related party payable to Pike's Peak Prep, another school managed by GEOF, in the amount of \$51,800 for an educational software license.

**NOTE 5 - CHARTER AGREEMENT**

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay Ball State University an annual administrative fee equal to 3% of State tuition support, along with other licensing fees. Payments under this charter agreement were \$87,341 for the year ended June 30, 2014.

**NOTE 6 - PENSION PLANS**

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the plan. There were no employer matching contributions to the plan for the year ended June 30, 2014.

The School also participates in the Public Employment Retirement Fund (PERF) and the Teacher's Retirement Fund (TRF). Employees are required to contribute 3% of gross wages to their respective plan. The School is required to contribute 7.5% to TRF and 10.0% to PERF, respectively. The School's expense for the year ended June 30, 2014 was \$97,056.

**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2014

---

Federal Grantor/Pass-Through Grantor/ <u>Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Education</u>			
Passed through the Indiana Department of Education			
Title I, Part A			
Title I Grants to Local Educational Agencies	84.010	FY 2012-2013	\$ 41,170
Title I Grants to Local Educational Agencies	84.010	FY 2013-2014	<u>664,325</u>
Total for Title I Grants to Local Educational Agencies			<u>705,495</u>
Special Education			
Special Education – Grants to States	84.027	FY 2012-2013	18,046
Special Education – Grants to States	84.027	FY 2013-2014	<u>91,949</u>
Total for Special Education – Grants to States			<u>109,995</u>
School Improvement Grants			
School Improvement Grants, ARRA	84.388	FY 2012-2013	263,659
School Improvement Grants, ARRA	84.388	FY 2013-2014	<u>694,455</u>
Total for School Improvement Grants, ARRA			<u>958,114</u>
Total Expenditures of Federal Awards			<u>\$ 1,773,604</u>

---

See accompanying note to the Schedule of Expenditures of Federal Awards

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2014

---

**NOTE 1 - BASIS OF PRESENTATION**

This schedule includes the federal awards activity of 21st Century Charter School @ Gary, Inc. and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Board of Directors  
21st Century Charter School @ Gary, Inc.  
Gary, Indiana

We have audited, 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, the financial statements of 21st Century Charter School @ Gary, Inc. (the School), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 30, 2014.

#### **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.

---

(Continued)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crowe Horwath LLP*

Crowe Horwath LLP

Indianapolis, Indiana  
October 30, 2014

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors  
21st Century Charter School @ Gary, Inc.  
Gary, Indiana

**Report on Compliance for Each Major Federal Program**

We have audited 21st Century Charter School @ Gary, Inc.'s (the School) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2014. The School's major federal program is 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 the School's major federal program 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 OMB Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the major federal program. However, our audit does not provide a legal determination of the School's compliance.

***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 its major federal program for the year ended June 30, 2014.

---

(Continued)

## 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Crowe Horwath LLP*

Crowe Horwath LLP

Indianapolis, Indiana  
October 30, 2014

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2014

---

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes      X   No

Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

***Federal Awards***

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes      X   No

Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? \_\_\_\_\_ Yes      X   No

Identification of major programs:

CFDA Number _____	Name of Federal Program _____
84.388	School Improvement Grants, ARRA

Dollar threshold used to distinguish between type A and type B programs:   \$300,000  

Auditee qualified as low-risk auditee?    \_\_\_ Yes   X   No

---

(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2014

---

**SECTION 2 - FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO  
BE REPORTED IN ACCORDANCE WITH GAGAS.**

None

**SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT  
FINDINGS AS DEFINED IN OMB A-133 SECTION 510 (a).**

None

**SECTION 4 - PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**FINDING 2013-001 – CONTROLS OVER FINANCIAL REPORTING**

**Condition:** During the prior year audit, adjustments were posted that changed the financial statement results of the School by a material amount.

**Status:** Resolved

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
OTHER REPORT  
June 30, 2014

---

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

Indiana State Board of Accounts Compliance Report of 21st Century Charter School @ Gary. Inc.

The above 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 addressing is *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.