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February 13, 2017

Charter School Board  
21<sup>ST</sup> Century Charter School @ Gary, Inc.  
556 Washington St.  
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, 2015 to June 30, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, 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, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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.

This audit 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, 2016 and 2015

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

FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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## 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 statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on 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 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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(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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for the purpose of additional analysis and is not a required part of the financial statements. 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 November 4, 2016 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  
November 4, 2016

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2016 and 2015

|                                       | <u>2016</u>          | <u>2015</u>          |
|---------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                         |                      |                      |
| Cash and cash equivalents             | \$ 542,186           | \$ 293,928           |
| Restricted cash                       | 1,419,352            | 1,423,270            |
| Grants and accounts receivable        | 417,963              | 232,673              |
| Prepaid expenses                      | 53,806               | 48,546               |
| Due from related parties (Note 4)     | 75,887               | 81,435               |
| Bond issue costs                      | 580,435              | 644,549              |
| Property and equipment, net (Note 2)  | <u>11,494,456</u>    | <u>11,948,213</u>    |
| Total assets                          | <u>\$ 14,584,085</u> | <u>\$ 14,672,614</u> |
| <b>LIABILITIES AND NET ASSETS</b>     |                      |                      |
| Accounts payable and accrued expenses | \$ 792,090           | \$ 790,837           |
| Due to related parties (Note 4)       | 19,542               | 21,879               |
| Bonds and notes payable (Note 3)      | <u>14,035,000</u>    | <u>13,325,000</u>    |
| Total liabilities                     | 14,846,632           | 14,137,716           |
| <b>NET ASSETS</b>                     |                      |                      |
| Unrestricted                          | <u>(262,547)</u>     | 534,898              |
| Total net assets                      | <u>(262,547)</u>     | <u>534,898</u>       |
| Total liabilities and net assets      | <u>\$ 14,584,085</u> | <u>\$ 14,672,614</u> |

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 STATEMENTS OF ACTIVITIES  
 Years ended June 30, 2016 and 2015

|   | <u>2016</u>         | <u>2015</u>       |
|---|---------------------|-------------------|
| <b>Public support and revenues</b>              |                     |                   |
| Federal grants                                  | \$ 1,500,022        | \$ 2,380,598      |
| State and local grants                          | 6,387,274           | 5,645,096         |
| Education supporting services                   | 149,511             | 24,465            |
| Rental income                                   | 300,000             | 300,000           |
| Loss on disposal of equipment                   | <u>-</u>            | <u>(3,648)</u>    |
| Total revenue and support                       | <u>8,336,807</u>    | <u>8,346,511</u>  |
| <b>Expenses</b>                                 |                     |                   |
| Federal grant funded program activities         | 1,508,919           | 2,238,461         |
| State and local grant funded program activities | 4,373,489           | 3,381,303         |
| School operations and building services         | 2,624,374           | 2,625,717         |
| Education supporting services                   | <u>616,586</u>      | <u>571,423</u>    |
| Total program expenses                          | 9,123,368           | 8,816,904         |
| Management and general                          | <u>10,884</u>       | <u>8,336</u>      |
| Total expenses                                  | <u>9,134,252</u>    | <u>8,825,240</u>  |
| Change in net assets                            | (797,445)           | (478,729)         |
| Net assets at beginning of year                 | <u>534,898</u>      | <u>1,013,627</u>  |
| Net assets, end of year                         | <u>\$ (262,547)</u> | <u>\$ 534,898</u> |

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2016 and 2015

|  | <u>2016</u>       | <u>2015</u>       |
|--|-------------------|-------------------|
| <b>Cash flows from operating activities</b>  |                   |                   |
| Change in net assets   | \$ (797,445)      | \$ (478,729)      |
| Adjustments to reconcile change in net assets to net cash from operating activities: |                   |                   |
| Depreciation and amortization  | 707,739           | 722,523           |
| Loss on disposal of property and equipment   | -                 | 3,648             |
| Change in assets and liabilities:  |                   |                   |
| Grants and accounts receivable   | (185,290)         | 249,948           |
| Prepaid expenses   | (5,260)           | (29,252)          |
| Due to/from related parties  | 3,211             | (257,128)         |
| Accounts payable and accrued other expenses  | <u>1,253</u>      | <u>226,928</u>    |
| Net cash from operating activities   | <u>(275,792)</u>  | <u>437,938</u>    |
| <b>Cash flows from investing activities</b>  |                   |                   |
| Purchases of property and equipment  | (189,868)         | (372,387)         |
| Proceeds from restricted cash  | <u>3,918</u>      | <u>386,383</u>    |
| Net cash from investing activities   | <u>(185,950)</u>  | <u>13,996</u>     |
| <b>Cash flows from financing activities</b>  |                   |                   |
| Proceeds from issuance of note payable   | 900,000           | -                 |
| Principal payments on bonds and notes payable  | <u>(190,000)</u>  | <u>(196,254)</u>  |
| Net cash used by financing activities  | <u>710,000</u>    | <u>(196,254)</u>  |
| Net change in cash and cash equivalents  | 248,258           | 255,680           |
| Cash and cash equivalents, beginning of year   | <u>293,928</u>    | <u>38,248</u>     |
| <b>Cash and cash equivalents, end of year</b>  | <u>\$ 542,186</u> | <u>\$ 293,928</u> |
| Supplemental disclosure of cash flow information                                     |                   |                   |
| Cash paid during the year for interest   | \$ 822,338        | \$ 834,588        |

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**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 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, 2016 and 2015.

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. Bank balances may periodically exceed FDIC insured limits. 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, 2016 and 2015. 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.

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21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**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, 2016 and 2015, 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, 2016 and 2015 was \$235,759 and \$171,745.

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, 2016 and 2015 were approximately \$13,221,000 and \$13,409,000, respectively.

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, 2016 and 2015.

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, 2016 and 2015.

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.

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(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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

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 2016 and 2015, expenses totaling \$34,712 and \$28,264 were incurred for advertising.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets or total net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2016, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2016. Management has performed their analysis through November 4, 2016, the date the financial statements were issued.

**NOTE 2 - PROPERTY AND EQUIPMENT**

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

|                                    | <u>2016</u>          | <u>2015</u>          |
|------------------------------------|----------------------|----------------------|
| Land                               | \$ 296,500           | \$ 296,500           |
| Building and building improvements | 11,435,193           | 11,407,665           |
| Equipment                          | <u>2,567,335</u>     | <u>2,408,784</u>     |
|                                    | 14,299,028           | 14,112,949           |
| Less: accumulated depreciation     | <u>(2,804,572)</u>   | <u>(2,164,736)</u>   |
|                                    | <u>\$ 11,494,456</u> | <u>\$ 11,948,213</u> |

Depreciation expense for the years ended June 30, 2016 and 2015 were \$643,625 and \$650,707, respectively.

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(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

**NOTE 3 – BONDS AND NOTES PAYABLE**

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

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| 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. Principal payments begin on February 28, 2018.    | \$ 5,525,000        | \$ 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. Principal payments begin on February 28, 2034. | 7,355,000           | 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.   | 255,000             | 445,000             |
| Note payable to State of Indiana to support charter school operations, payable in semi-annual installments of \$45,000, plus interest computed at 1.00%, through maturity in July 2026.   | <u>900,000</u>      | <u>-</u>            |
| Total bonds and notes payable   | <u>\$14,035,000</u> | <u>\$13,325,000</u> |

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

|            |           |                          |
|------------|-----------|--------------------------|
| 2017       | \$        | 295,000                  |
| 2018       |           | 305,000                  |
| 2019       |           | 320,000                  |
| 2020       |           | 335,000                  |
| 2021       |           | 350,000                  |
| Thereafter |           | <u>12,430,000</u>        |
|            | <b>\$</b> | <b><u>14,035,000</u></b> |

Total interest expense during the years ended June 30, 2016 and 2015 were \$822,651 and \$830,843, respectively. The School has various financial and nonfinancial covenants associated with the debt obligations, for which they reported compliance as of June 30, 2015. At June 30, 2016, the School was not in compliance with the fund balance and minimum cash on hand covenants. The School obtained a waiver from the bondholder through June 30, 2017.

(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**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, IT support, payroll and accounting services provided. During the years ended June 30, 2016 and 2015, the School paid GEOF fees of \$495,169 and \$550,000. 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, 2016 and 2015, the School has a payable to GEOF for \$19,542 and \$21,879 for various transactions and a receivable from GEOF in the amount of \$75,887 and \$81,435 for overpayment of administrative fees,

The School leases space to Gary Middle College, Inc. which expires on June 30, 2017. Rent income totaled \$300,000 for each of the years ended June 30, 2016 and 2015. At June 30, 2016 and 2015, the School had a receivable balance in the amount of \$27,229 and \$1,988 due from Gary Middle College, Inc. and a payable to Gary Middle College, Inc. in the amount of \$4,850 and \$1,008, respectively.

**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 \$110,938 and \$95,701 for the years ended June 30, 2016 and 2015, respectively.

**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 years ended June 30, 2016 and 2015.

The School participates in the Indiana Public Retirement System (INPRS). INPRS includes both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). PERF is a defined benefit pension plan. PERF is a cost sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. TRF is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The School employees are required to contribute three percent of their annual covered salary. The School is required to contribute an actuarially determined rate determined annually for PERF and TRF. The School's expense for the years ended June 30, 2016 and 2015 was \$245,292 and \$174,205, respectively.

**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2016

| Federal Grantor/Pass-Through Grantor/<br>Program Title | CFDA<br>Number | Pass Through<br>Number | Total Federal<br>Expenditures |
|--|----------------|------------------------|-------------------------------|
| <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 2014-2015           | \$ 1,832                      |
| Title I Grants to Local Educational Agencies           | 84.010         | FY 2015-2016           | <u>1,065,971</u>              |
| Total for Title I Grants to Local Educational Agencies |                |                        | 1,067,803                     |
| Special Education – Grants to States                   | 84.027         | FY 2015-2016           | 110,237                       |
| Improving Teacher Quality State Grants (Title II)      | 84.367         | FY 2014-2015           | 108,640                       |
| School Improvement Grants                              | 84.377         | FY 2014-2015           | <u>222,242</u>                |
| Total Expenditures of Federal Awards                   |                |                        | <u>\$ 1,508,922</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, 2016

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2016. 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, changes in net assets, or cash flows of the School.

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

Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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, 2016, and the related statement 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 November 4, 2016.

**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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(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  
November 4, 2016

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 Uniform Guidance* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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(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 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 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.

*Crowe Horwath LLP*

Crowe Horwath LLP

Indianapolis, Indiana  
November 4, 2016

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2016

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**Section 1 – Summary of Auditor’s Results**

*Financial Statements*

Type of report the audit issued on whether the  
Financial statements audited were prepared  
In accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?                     yes             No

Significant deficiencies identified not  
considered to be material weaknesses?             yes             None reported

Noncompliance material to financial statements noted?             yes             No

*Federal Awards*

Internal control over major federal programs:

Material weakness(es) identified?                     yes             No

Significant deficiency(ies) identified?             yes             None reported

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

Unmodified

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

Identification of major federal programs:

CFDA Number(s) \_\_\_\_\_ Name of Federal Program or Cluster \_\_\_\_\_  
84.010 Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:            \$ 750,000

Auditee qualified as low-risk auditee?  yes             no

**Section II – Financial Statement Findings**

None

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

None

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21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2016

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**Section IV – Prior Year Findings and Questioned Costs**

None reported.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
OTHER REPORT  
June 30, 2016

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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*.