



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B51575

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

December 19, 2018

Charter School Board
Career Academy of South Bend, Inc.
3801 Crescent Circle
South Bend, IN 46627


We have reviewed the report prepared by Career Academy of South Bend, Inc. and opined upon by Kruggel Lawton CPAs, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Career Academy of South Bend, 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.

We call your attention to the findings in the report on pages 26 through 31. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings.

In our opinion, Kruggel Lawton CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for Career Academy of South Bend, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner



ANNUAL REPORT
June 30, 2016



CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

ANNUAL REPORT

June 30, 2016

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13
Schedule of Expenditures of Federal Awards	14
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	15
SUPPLEMENTARY INFORMATION	
Statement of Financial Position by Division	16 - 17
Statement of Activities by Division	18
Statement of Expenses by Division	19
ADDITIONAL REQUIRED REPORTS AND INFORMATION	
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 <i>Government Auditing Standards</i>	20 - 21
Independent Auditor's Report On Compliance For Each Major Program and On Internal Control Over Compliance Required By the Uniform Guidance	22 - 24
Schedule of Findings and Questioned Costs	25 - 31
Summary Schedule of Prior Audit Findings	32
OTHER REPORT	33



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Career Academy of South Bend, Inc.
South Bend, Indiana

Report on the Financial Statements

We have audited the accompanying financial statement of Career Academy of South Bend, Inc., which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the June 30, 2016 financial statements referred to above present fairly, in all material respects, the financial position of Career Academy of South Bend, Inc. as of June 30, 2016 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.

Correction of Error

Beginning net assets as of July 1, 2015 have been restated to correct an error made in a prior period in relation to recognition of grant revenue. As discussed in Note 2, the School recognized grant revenue received during the year ended June 30, 2016 in the wrong period. The effect of the restatement was to increase net assets at July 1, 2015 in the amount of \$109,711.

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, on our consideration of Career Academy of South Bend, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Career Academy of South Bend, Inc.'s internal control over financial reporting and compliance.

Respectfully submitted,



Certified Public Accountants

Elkhart, Indiana
December 4, 2018

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS**CURRENT ASSETS**

Cash	52,939
Accounts receivable	27,673
Grants receivable	847,969
Prepaid expenses	12,228

Total Current Assets	940,809
----------------------	---------

PROPERTY AND EQUIPMENT

Land	302,400
Buildings	25,212,335
Office furniture and equipment	3,857,960
Construction in progress	1,170

Total	29,373,865
-------	------------

Accumulated depreciation	2,978,048
--------------------------	-----------

Net Property and Equipment	26,395,817
----------------------------	------------

TOTAL ASSETS	27,336,626
---------------------	-------------------

LIABILITIES AND NET ASSETS**CURRENT LIABILITIES**

Current portion of long-term debt	256,684
Accounts payable	184,168
Accrued payroll, benefits, and related taxes	7,144
Accrued interest	13,803
Other accrued expenses	30,596

Total Current Liabilities	492,395
---------------------------	---------

LONG-TERM LIABILITIES

Long-term debt	30,323,269
----------------	------------

TOTAL LIABILITIES	30,815,664
--------------------------	-------------------

UNRESTRICTED NET ASSETS**(3,479,038)**

TOTAL LIABILITIES AND NET ASSETS	27,336,626
---	-------------------

The Notes to Financial Statements are an integral part of this statement.

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE:				
Federal grants	973,274	0	0	973,274
Non-federal grants	420,253	0	0	420,253
State education support	7,766,207	0	0	7,766,207
Contributions	1,408,075	0	0	1,408,075
Rent	3,300	0	0	3,300
Other income	80,014	0	0	80,014
Heroes Hangout	61,976	0	0	61,976
Student fees	75,559	0	0	75,559
In-kind donations	24,000	0	0	24,000
Total Public Support and Revenue	10,812,658	0	0	10,812,658
Net assets released from restrictions:				
EXPENSES				
Program Services:				
High School	3,783,266	0	0	3,783,266
Middle School	3,618,244	0	0	3,618,244
Primary School	3,101,303	0	0	3,101,303
Total Program Services	10,502,813	0	0	10,502,813
Management and General	1,880,774	0	0	1,880,774
Total Expenses	12,383,587	0	0	12,383,587
CHANGE IN NET ASSETS	(1,570,929)	0	0	(1,570,929)
NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY STATED	(2,017,820)	0	0	(2,017,820)
PRIOR PERIOD ADJUSTMENT				
UNDERSTATEMENT OF REVENUE	109,711	0	0	109,711
NET ASSETS, BEGINNING OF YEAR AS RESTATED	(1,908,109)	0	0	(1,908,109)
NET ASSETS AT END OF YEAR	(3,479,038)	0	0	(3,479,038)

The Notes to Financial Statements are an integral part of this statement.

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

	<u>Program Services</u>			<u>Total</u>	<u>Supporting</u>	<u>Total</u>
	<u>High</u>	<u>Middle</u>	<u>Primary</u>		<u>Services</u>	
	<u>School</u>	<u>School</u>	<u>School</u>		<u>Management</u>	
					<u>and General</u>	
Salaries and wages	1,781,614	1,738,020	1,795,895	5,315,529	1,138,140	6,453,669
Employee benefits	291,384	313,879	265,854	871,117	205,159	1,076,276
Payroll taxes	142,415	142,652	148,718	433,785	88,639	522,424
Advertising expense	2,468	2,853	4,989	10,310	261,096	271,406
Bank charges	15	20	15	50	784	834
Information technology	75,682	54,038	46,306	176,026	18,546	194,572
Insurance	18,812	20,538	23,966	63,316	2,729	66,045
Interest expense	170,132	115,922	21,077	307,131	10,051	317,182
Student transportation	21,166	3,439	3,973	28,578	0	28,578
Equipment	14,030	19,938	11,804	45,772	0	45,772
Supplies	200,499	216,472	383,731	800,702	26,574	827,276
Other	54,869	61,771	72,530	189,170	2,322	191,492
Professional fees	114,405	90,292	67,940	272,637	107,250	379,887
Property taxes	8,596	4,234	0	12,830	0	12,830
Rent	17,185	16,735	23,131	57,051	2,790	59,841
Repairs and maintenance	48,091	33,259	24,120	105,470	56	105,526
Travel	26,434	4,393	7,778	38,605	8,604	47,209
Professional development	0	1,631	3,994	5,625	0	5,625
Food cost	11,132	4,908	4,010	20,050	5,903	25,953
Occupancy	176,561	158,155	148,058	482,774	0	482,774
Staff development and recruitment	17,623	30,723	43,414	91,760	2,131	93,891
Depreciation	590,153	584,372	0	1,174,525	0	1,174,525
Total Functional Expenses	3,783,266	3,618,244	3,101,303	10,502,813	1,880,774	12,383,587

The Notes to Financial Statements are an integral part of this statement.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	(1,570,929)
Adjustments to reconcile change in assets to net cash from operating activities:	
Depreciation	1,174,525
Adjustments for changes in operating assets and liabilities:	
Accounts receivable	(17,038)
Grants receivable	(729,594)
Prepaid expenses	39,970
Accounts payable	(31,641)
Accrued payroll, benefits, and related taxes	6,515
Accrued interest	270,503
Other accrued expenses	(53,143)
Net Cash Flows used by Operating Activities	(910,832)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from the issuance of long-term debt	5,054,423
Principal payments on long-term debt	(4,296,878)
Net Cash Flows from Financing Activities	757,545
CHANGE IN CASH	(153,287)
CASH AT BEGINNING OF YEAR	206,226
CASH AT END OF YEAR	52,939
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS	
Interest paid	46,679
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES	
Debt incurred for purchase of property and equipment	11,800,324

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NATURE OF BUSINESS

Career Academy of South Bend, Inc. (the "School") is a public benefit not-for-profit School incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24. During the year ended June 30, 2016 and 2015, the School was sponsored by Trine University and Ball State, respectively.

Revenues primarily come from resources provided under the Indiana Charter Schools Act (the "Act"). Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. 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 the educational services are rendered.

A portion of the Organization's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting.

The School adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, which sets standards for reporting on financial statements of not-for-profit organizations. ASC 958-205 requires the classification and presentation of net assets in three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets represent the portion of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of operations.

Temporarily restricted net assets represent the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the School. Temporarily restricted net assets also include cumulative appreciation and reinvested gains on permanently restricted net assets, which have not been appropriated by management.

Permanently restricted net assets represent the portion of net assets resulting from contributions and other inflows of assets whose use 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.

USE OF ESTIMATES

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

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the School considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash is held at local banks and is insured up to the respective limits by the FDIC. It is common for cash to exceed insured limits in the ordinary course of business.

ACCOUNTS RECEIVABLE

Accounts receivable is stated at the amount management expects to collect from outstanding balances and is presented net of the allowance for doubtful accounts. Management has determined that no allowance for doubtful accounts is required at June 30, 2016.

Factors considered in determining collectibility include past collection history, an aged analysis of receivables, economic conditions, as well as historical trends. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and credit to accounts receivable. Interest is not typically charged on past due accounts.

GRANTS RECEIVABLE

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

PROPERTY AND EQUIPMENT

Donations of property and equipment are recorded at their estimated fair value. The donation is recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service as instructed by the donor. Temporarily restricted net assets are reclassified to unrestricted net assets at that time. There were no donated assets for the year ended June 30, 2016.

Purchased property and equipment are stated at cost. Expenditures for additions, improvements, and replacements are added to the property and equipment accounts. Repairs and maintenance are charged to expense as incurred. When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any gain or loss arising from the disposition is reflected in income. Depreciation is provided for over the estimated useful lives of the assets using the straight line method. Depreciation expense for the year ended June 30, 2016 was \$1,174,525. Construction in progress of \$1,170 was not depreciated as of June 30, 2016.

A summary of the range of lives by asset category is as follows:

Buildings	10 - 40 year
Office furniture and equipment	3 - 10 year

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

REVENUE RECOGNITION

Revenues generally come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment and 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 recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

CONTRIBUTIONS

Contributions, including promises to give, are recorded when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the assets or at the time an unconditional promise to give is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are received.

ADVERTISING COSTS

Various costs relating to advertising are considered period costs and are therefore expensed as incurred. Advertising cost for the year ended June 30, 2016 was \$271,407.

FUNCTIONAL EXPENSES

The costs of providing the program and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, costs are directly assigned to program or management and general based on the nature of the cost.

DONATED SERVICES AND MATERIALS

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-605 states that in order to recognize donated services as contributions in the Organization's financial statements the services must require specialized skills, be provided by individuals who possess those skills, and typically need to be purchased if not contributed.

Material gift-in-kind items used in the Organization's programs and donated goods distributed are recorded as income and expense at the time the items are received, which is normally also the time they are placed into service or distributed. Donated services and materials are recorded in the Statement of Activities as In-kind donations revenue for the year ended June 30, 2016

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

INCOME TAXES

The School is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the School is not a private foundation within the meaning of Section 509(a).

The Income Taxes Topic, FASB ASC 740, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 requires an enterprise to disclose the nature of uncertain tax positions taken, if any, when filing its income tax return utilizing a two-step process to recognize and measure any uncertain tax positions taken. The School recognizes a tax benefit only if it is more likely than not the position would be sustained in a tax examination, with a tax examination being presumed to occur. No tax benefit will be recorded on tax positions not meeting the more likely than not test. Interest and penalties accrued or incurred, if any, as a result of applying ASC 740 will be recorded to interest expense and other expense, respectively.

Based on its evaluation, the School has concluded that there are no uncertain tax positions requiring recognition in its financial statements. The evaluation was performed for all federal and state tax periods still subject to examination. The School's 2012 through 2014 federal and state exempt School returns remain subject to examination by the IRS and state taxing authorities.

CONCENTRATION OF CREDIT RISK

Financial instruments with potential credit risk consists principally of cash and cash equivalents and accounts receivable. Concentration of credit risk with respect to cash and cash equivalents generally relates to deposits held at the bank which may exceed the amount of insurance provided on the deposits and the potential inability to access liquidity in the financial institutions where the cash and cash equivalents are concentrated. The risk is managed as the cash and cash equivalents may be redeemed upon demand and are maintained in a financial institution with reputable credit and, therefore, bear minimal credit risk. Grants receivable potentially subjects the School to a concentration of credit risk. All of the School's outstanding grants receivable was due from federal grant agencies as of June 30, 2016.

NOTE 2 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been recorded for the correction of an error to restate the beginning net assets as of July 1, 2015. The School recognized three grant receipts received during the year ended June 30, 2016 in revenue in 2016. The grants should have been recognized during the year ended June 30, 2015. The effect of the restatement was to increase beginning net assets at July 1, 2015 in the amount of \$109,711.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 - LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2016:

Unsecured note payable to The Garatoni Family Foundation, maturing on July 31, 2025, at which time the principal amount of the note is due along with interest capitalizing at 1% interest per annum. 17,989,451

Note payable to Larry Garatoni, maturing on July 31, 2025, at which time the principal amount of the note is due along with interest capitalizing at 1% interest per annum. The note is subordinate to the note to the City of South Bend due September 2030. The note is secured by substantially all assets of the organization with the exception of the technology assets that were financed by the note to the City of South Bend as described below. 8,321,652

Note payable to Crescent Michiana Properties, LLC, in monthly installments of \$8,520, including interest at 7.25% per annum through October 2021. The note is secured by land and building property and is guaranteed by the Garatoni Family Foundation. 451,105

Unsecured note payable to the Indiana Common School Fund in the original amount of \$2,754,301, bearing interest at a rate of 1% per annum through December 2026, at which time the note must have been paid in full. Payments are made by deductions from any monies due to the School as its distributive share from State Tuition Support. 2,745,301

An interest free note payable to the City of South Bend in the original amount of \$715,000. The note is payable in annual installments of \$20,000 through 2023, \$25,000 through 2025, \$30,000 through 2027, and \$40,000 through 2030, with a balloon payment of \$365,000 in February 2031. The note is guaranteed by the Garatoni-Smith Family Foundation. 715,000

Note payable to the City of South Bend in relation to a revolving line of credit that converted to term debt at June 30, 2016. The note requires interest only monthly payments until October 2017, at which time monthly principal payments commence. Interest is charged at 4% and the note matures in September 2030. The note also requires an annual service fee in the amount of .005% of the outstanding principal balance at the end of each twelve month period. The note is subject to various positive and negative covenants with which the School is in compliance at June 30, 2016. The note is secured by technology equipment and related technology infrastructure purchased with the proceeds of the note. 357,444

Total	30,579,953
-------	------------

Current portion of long-term debt	256,684
-----------------------------------	---------

Net long-term debt	30,323,269
--------------------	------------

Long-term debt, less current portion, is scheduled to mature as follows for the year ending June 30:

2018	414,958
2019	422,299
2020	426,680
2021	431,563
Thereafter	28,627,769
Total	30,323,269

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Interest expense for the year ended June 30, 2016 was \$317,182, including \$256,700 that is aggregated into the notes due to the Garatoni Family Foundation and Larry Garatoni at June 30, 2016.

NOTE 4 - OPERATING LEASE

The School leases certain items of equipment under an operating lease. The equipment lease provides for monthly lease payments in the amount of \$3,254 through July 2020. Lease expense under the operating lease for the year ended June 30, 2016 was \$35,792.

The future minimum payments under the lease are as follows for the years ending June 30:

2017	39,046
2018	39,046
2019	39,046
2020	39,046
2021	3,254
Total	159,438

NOTE 5 - RETIREMENT PLANS

The School's certified employees are covered by the Indiana State Teacher's Retirement Fund (TRF), which is a multiple employer defined benefit retirement plan governed by the State of Indiana and administrated by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Employees are eligible as of their hire date. The School made contributions of 7.5% of employee gross wages to the fund during the year. If the School withdrew from TRF, the School could receive a withdrawal fee. The School's contributions are an insignificant percentage of the total contributions received by TRF.

Alternatively, employees can opt to participate in a section 401(k) retirement plan offered through Freedom Retirement Plan Consultants, Inc. in lieu of participating in TRF. The School also contributes 7.5% of compensation to the 401(k) plan.

Substantially all full-time employees are eligible to participate in either plan. Retirement expense under both plans was \$364,166 for the year ended June 30, 2016.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Garatoni Foundation and Larry Garatoni, individually, periodically provide financing to the School, including funds for the construction of the school facility. Larry Garatoni is the President of the School's Board of Directors and the Chief Executive Officer of HQ Investments Group, which manages the investments of The Garatoni Family Foundation. The School also received contributions through debt forgiveness totaling \$1,350,000 from The Garatoni Family Foundation in the year ended June 30, 2016.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - LEGAL AND OTHER CONTINGENCIES

The School is subject to various legal proceeding and claims that arise in the ordinary course of business. In accordance with generally accepted accounting principles, the School records a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. There is significant judgment required in both the probability determinations and as to whether an exposure can be reasonably estimated. In management's opinion, the School does not have a potential liability related to any current legal proceeding and claims that would individually or in aggregate materially adversely affect financial conditions or operating results. However, the outcomes of legal proceedings and claims brought against the School are subject to significant uncertainty. Should the School fail to prevail in any of these legal matters, or should several of these legal matters be resolved against the School in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

In the normal course of operations, the School receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 8 - SUBSEQUENT EVENTS

The School has evaluated subsequent events through December 4, 2018, the date the financial statements were available to be issued. No events or transactions occurred during this period which require revenue recognition or disclosure in the financial statements.

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Education				
Passed-through the Indiana Department of Education				
Title I, Part A				
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	16-9980	145,305	0
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	16-9965	129,730	0
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	16-9960	170,136	0
Total Title I, Part A			<u>445,171</u>	<u>0</u>
Special Education Cluster (IDEA)				
Special Education-Grants to States, (IDEA, Part B)	84.027	14216-588-PN01	99,075	0
Special Education-Grants to States (IDEA, Part B)	84.027	14216-544-PN01	92,110	0
Total Special Education Cluster (IDEA)			<u>191,185</u>	<u>0</u>
Charter Schools Program				
Charter Schools	84.282	FY 2015-2016	<u>336,918</u>	<u>0</u>
Total Department of Education			<u>973,274</u>	<u>0</u>
Total Expenditures of Federal Awards			<u>973,274</u>	<u>0</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of Career Academy of South Bend, Inc. (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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the costs principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Schools*, 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 allocable or are limited as to reimbursement.
2. The School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Career Academy of South Bend, Inc.
South Bend, Indiana

We have audited the financial statements of Career Academy of South Bend, Inc. as of and for the year ended June 30, 2016, and our report thereon dated December 4, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The following supplementary information, including the statements of financial position, activities, and functional expenses by division, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Krugger, Lawton & Co, LLC'.

Certified Public Accountants

Elkhart, Indiana
December 4, 2018

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

STATEMENT OF FINANCIAL POSITION BY DIVISION

June 30, 2016

<u>ASSETS</u>	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS						
Cash	92,133	236,588	78,844	(354,626)	0	52,939
Accounts receivable	(7,623)	137	4,511	30,648	0	27,673
Grants receivable	112,110	225,987	509,872	0	0	847,969
Prepaid expenses	9,885	744	2,745,852	747	(2,745,000)	12,228
Total Current Assets	206,505	463,456	3,339,079	(323,231)	(2,745,000)	940,809
PROPERTY AND EQUIPMENT						
Land	159,400	143,000	0	0	0	302,400
Buildings	11,806,529	13,405,806	0	0	0	25,212,335
Office furniture and equipment	1,851,189	2,006,771	0	0	0	3,857,960
Construction in progress	1,170	0	0	0	0	1,170
Total	13,818,288	15,555,577	0	0	0	29,373,865
Accumulated depreciation	2,393,676	584,372	0	0	0	2,978,048
Net Property and Equipment	11,424,612	14,971,205	0	0	0	26,395,817
TOTAL ASSETS	11,631,117	15,434,661	3,339,079	(323,231)	(2,745,000)	27,336,626

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

STATEMENT OF FINANCIAL POSITION BY DIVISION

June 30, 2016

	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>Total</u>
<u>LIABILITIES AND NET ASSETS</u>						
CURRENT LIABILITIES						
Current portion of long-term debt	71,891	20,000	164,793	0	0	256,684
Accounts payable	46,259	39,294	44,207	54,408	0	184,168
Accrued payroll, benefits, and related taxes	(16)	(478)	(759)	8,397	0	7,144
Accrued interest	0	0	13,803	0	0	13,803
Other accrued expenses	30,000	2,750,676	(5,080)	0	(2,745,000)	30,596
Total Current Liabilities	148,134	2,809,492	216,964	62,805	(2,745,000)	492,395
LONG-TERM LIABILITIES						
Long-term debt	13,426,853	11,897,582	3,506,783	1,492,051	0	30,323,269
Total Long-Term Liabilities	13,426,853	11,897,582	3,506,783	1,492,051	0	30,323,269
TOTAL LIABILITIES	13,574,987	14,707,074	3,723,747	1,554,856	(2,745,000)	30,815,664
UNRESTRICTED NET ASSETS						
Total Net Assets	(1,943,870)	727,587	(384,668)	(1,878,087)	0	(3,479,038)
Total Net Assets	(1,943,870)	727,587	(384,668)	(1,878,087)	0	(3,479,038)
TOTAL LIABILITIES AND NET ASSETS	11,631,117	15,434,661	3,339,079	(323,231)	(2,745,000)	27,336,626

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

STATEMENT OF ACTIVITIES BY DIVISION

For the Year Ended June 30, 2016

	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES:						
Federal grants	237,415	225,987	509,872	0	0	973,274
Non-federal grants	8,753	190,000	221,500	0	0	420,253
State education support	1,954,081	2,688,719	3,123,407	0	0	7,766,207
Contributions	705,160	700,479	2,436	0	0	1,408,075
Rent	702,840	1,200,160	0	300	(1,900,000)	3,300
Other income	64,904	6,640	7,787	683	0	80,014
Heroes Hangout	0	18,370	43,606	0	0	61,976
Student fees	42,743	21,077	11,618	121	0	75,559
In-kind donations	0	0	0	24,000	0	24,000
Total Revenues	3,715,896	5,051,432	3,920,226	25,104	(1,900,000)	10,812,658
EXPENSES	3,783,266	4,318,244	4,301,303	1,880,774	(1,900,000)	12,383,587
CHANGE IN NET ASSETS	(67,370)	733,188	(381,077)	(1,855,670)	0	(1,570,929)
NET ASSETS, BEGINNING OF YEAR	(2,017,820)	0	0	0	0	(2,017,820)
PRIOR PERIOD ADJUSTMENT	109,711	0	0	0	0	109,711
RECLASSIFICATIONS OF NET ASSETS	31,609	(5,601)	(3,591)	(22,417)	0	0
NET ASSETS, BEGINNING OF YEAR AS RESTATE	(1,876,500)	(5,601)	(3,591)	(22,417)	0	(1,908,109)
NET ASSETS, END OF YEAR	(1,943,870)	727,587	(384,668)	(1,878,087)	0	(3,479,038)

CAREER ACADEMY OF SOUTH BEND, INC.South Bend, Indiana

STATEMENT OF FUNCTIONAL EXPENSES BY DIVISION

For the Year Ended June 30, 2016

	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>Total</u>
Salaries and wages	1,781,614	1,738,020	1,795,895	1,138,140	0	6,453,669
Employee benefits	291,384	313,879	265,854	205,159	0	1,076,276
Payroll taxes	142,415	142,652	148,718	88,639	0	522,424
Advertising expense	2,468	2,853	4,989	261,096	0	271,406
Bank charges	15	20	15	784	0	834
Information technology	75,682	54,038	46,306	18,546	0	194,572
Equipment	14,030	19,938	11,804	0	0	45,772
Insurance	18,812	20,538	23,966	2,729	0	66,045
Interest expense	170,132	115,922	21,077	10,051	0	317,182
Student transportation	21,166	3,439	3,973	0	0	28,578
Travel	26,434	4,393	7,778	8,604	0	47,209
Supplies	200,499	216,472	383,731	26,574	0	827,276
Other	54,869	61,771	72,530	2,322	0	191,492
Professional fees	114,405	90,292	67,940	107,250	0	379,887
Property taxes	8,596	4,234	0	0	0	12,830
Rent	17,185	716,735	1,223,131	2,790	(1,900,000)	59,841
Repairs and maintenance	48,091	33,259	24,120	56	0	105,526
Professional development	0	1,631	3,994	0	0	5,625
Food cost	11,132	4,908	4,010	5,903	0	25,953
Occupancy	176,561	158,155	148,058	0	0	482,774
Staff development and recruitment	17,623	30,723	43,414	2,131	0	93,891
Depreciation	590,153	584,372	0	0	0	1,174,525
Total Functional Expenses	3,783,266	4,318,244	4,301,303	1,880,774	(1,900,000)	12,383,587

ADDITIONAL REQUIRED REPORTS AND
INFORMATION



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

To the Board of Directors
Career Academy of South Bend, Inc.
South Bend, 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 Career Academy of South Bend, Inc. ("School"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, 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 December 4, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2016-001.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency: 2016-002.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-003.

Career Academy of South Bend, Inc.'s Response to Findings

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Respectfully submitted,



Certified Public Accountants

Elkhart, Indiana
December 4, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Career Academy of South Bend, Inc.
South Bend, Indiana

Report on Compliance for Each Major Federal Program

We have audited Career Academy of South Bend, Inc.'s ("School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2016. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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* 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 each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies CFDA 84.010

As described in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Educational Agencies as described in finding number 2016-005 for Special Tests and Provisions. Compliance with such requirements is necessary in our opinion, for the school to comply with the requirements applicable to that program.

Qualified Opinion on Title I Grants to Local Educational Educational Agencies CFDA 84.010

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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, 2016.

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 2016-006. Our opinion on each major federal program is not modified with respect to this matter.

The School's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies

may exist that will not be identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-004, that we consider to be a material weakness.

The School's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kuegel, Lawton & Co, LLC". The signature is written in a cursive style.

Certified Public Accountants

Elkhart, Indiana
December 4, 2018

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	Yes

Identification of major 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?	No

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section II - Financial Statement Findings

MATERIAL WEAKNESS

2016-001 PRIOR PERIOD ADJUSTMENT

Condition: The School received grant proceeds during the year ended June 30, 2016. These proceeds were related to the year ended June 30, 2015.

Criteria: The School is required to design, implement and maintain a system 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.

Cause: Cutoff was not properly applied.

Effect: Assets, revenue, and net assets were all understated by \$109,711 for the year ended June 30, 2015.

Recommendation: We have recommended that management review grant recognition standards for nonprofit entities under GAAP and apply proper cutoff procedures in the future.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will review its internal controls over the financial reporting process to insure that all material transactions are reflected in the proper period in the future.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

SIGNIFICANT DEFICIENCY

2016-002

SEGREGATION OF DUTIES

Condition:

There were deficiencies in the internal control system of the School related to financial transactions.

PAYROLL

Internal controls within the payroll process did not result in proper segregation of duties.

RECEIPTS

The School did not have controls in place to ensure proper segregation of duties surrounding the receipts.

Criteria:

The School is required to design, implement and maintain a system 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.

Cause:

The School lacked the resources to ensure proper segregation of duties.

PAYROLL

The procedural practice of an individual person entering payroll into a tracking spreadsheet, the third party payroll processing system and the general ledger does not provide for a secondary review of calculations, entries, totals and transactions.

RECEIPTS

The procedural practice of an individual person receiving payments and having complete control of the general ledger does not provide proper safeguards to ensure completeness of revenue.

Effect:

Improper segregation of duties increases the risk of fraud.

Recommendation:

The School should implement controls in order to achieve proper segregation of duties.

*View of Responsible
Officials and Planned
Corrective Actions:*

Management agrees with the finding and will implement policies and procedures in order to ensure compliance with the guidelines for Indiana Charter Schools established by the State Board of Accounts.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2016-003 UNIFORM COMPLIANCE GUIDELINES - STATE BOARD OF ACCOUNTS

Condition: The School is out of compliance with uniform compliance requirements established by the Indiana State Board of Accounts.

Criteria: The School is required to comply with the uniform compliance guidelines established by the Indiana State Board of Accounts under Ind. Code § 5-11-1-24.

Cause: The School was inattentive to the compliance guidelines mentioned above.

Effect: The School is not in Compliance with guidelines for charter schools which could cause issues with the School's charter.

Recommendation: The School should implement controls in order to comply with the Uniform Compliance Guidelines set forth by the Indiana State Board of Accounts.

View of Responsible Management agrees with the finding and will begin implementing policies and
Officials and Planned procedures to comply with the uniform compliance requirements established by the
Corrective Actions: State Board of Accounts.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section III - Federal Award Findings and Questioned Costs

MATERIAL WEAKNESS

2016-004 WRITTEN FEDERAL PROCEDURES

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and year 16-9980, 16-9965, 16-9960

Condition: The School's accounting and procedures manual did not include written policies or procedures that address all applicable compliance areas under the Uniform Guidance; for instance, cash management, allowable costs, and period of performance.

Criteria: The School must establish and maintain effective internal controls over Federal awards that provide reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Cause: The School was inattentive to all of the requirements in the Uniform Guidance.

Effect: The absence of documented policies and procedures could result in noncompliance with the terms of federal awards.

Recommendation: The School should document and adhere to written policies and procedures that reflect current OMB requirements under the Uniform Guidance. This accounting and procedures manual should be monitored and revised annually as necessary.

View of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will begin drafting the necessary written documentation to comply with the Uniform Guidance.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2016-005 ASSESSMENT SYSTEM SECURITY

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award 16-9980, 16-9965, 16-9960
Numbers and year

Condition: Documentation of policies and procedures for policies and procedures regarding test security for assessments was not maintained.

Criteria: Schools are required to establish and maintain an assessment system that is valid, reliable, and consistent with relevant professional and technical standards.

Cause: The School was inattentive to the requirement of maintaining documentation of policies and procedures surrounding assessment system security.

Effect: If policies and procedures are not implemented to ensure proper security of the assessment system, assessment data may be altered without notice.

Recommendation: The School should document and implement policies and procedures to maintain test security.

View of Responsible Management agrees with the finding and will begin drafting the necessary
Officials and Planned written documentation to comply with the Uniform Guidance.
Corrective Actions:

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2016-006 LATE FILING OF REPORTING PACKAGE TO FEDERAL AUDIT CLEARINGHOUSE

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and year 16-9980, 16-9965, 16-9960

Condition: The reporting package due March 31, 2017 was submitted late.

Criteria: The Uniform Guidance requires reoporting packages to be submitted within the earlier of 30 days of report issuance or 9 months of the fiscal year end.

Cause: The School was inattentive to all of the requirements in the Uniform Guidance.

Effect: The compliance audit of the period ended June 30, 2017 will be determined to be high risk.

Recommendation: Management should ensure reports are filed timely within regulatory guidelines.

View of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will begin drafting the necessary written documentation to comply with the Uniform Guidance.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2016

There were no prior year audit findings.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

OTHER REPORT

For the Year Ended June 30, 2016

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

Supplemental Audit Report of Career Academy of South Bend, 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*.



3801 Crescent Circle
South Bend, IN 46628
Tel. (574) 299-9800
Fax. (574) 288-6125
www.CareerAcademySB.com

CORRECTIVE ACTION PLAN

Cognizant or Oversight Agency for Audit: Department of Education

Career Academy of South Bend, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and address of independent public accounting firm:

Kruggel, Lawton & Company, LLC
317 W Franklin St
Elkhart, IN 46516

Audit period: July 1, 2015 – June 30, 2016

The findings from the 2016 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2016-001 Prior Period Adjustment

Recommendation: The school should review grant recognition standards for nonprofit entities under GAAP and apply proper cutoff procedures in the future.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will review its internal controls over the financial reporting process to insure that all material transactions are reflected in the proper period in the future.

SIGNIFICANT DEFICIENCY

2016-002 Segregation of Duties

Recommendation: The School should implement controls in order to achieve proper segregation of duties.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and we will implement policies and procedures in order to ensure compliance with the guidelines for Indiana Charter Schools established by the State Board of Accounts.



3801 Crescent Circle
South Bend, IN 46628
Tel. (574) 299-9800
Fax. (574) 288-6125
www.CareerAcademySB.com

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2016-003 Uniform Compliance Guidelines – State Board of Accounts

Recommendation: The School should implement controls in order to comply with the Uniform Compliance Guidelines set forth by the Indiana State Board of Accounts.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and we will begin implementing policies and procedures to comply with the uniform compliance requirements established by the State Board of Accounts.

FINDINGS—DEPARTMENT OF EDUCATION AUDIT

MATERIAL WEAKNESS

2016-004 Title I Grants to Local Educational Agencies—CFDA No. 84.010.

Recommendation: The School should document and adhere to written policies and procedures that reflect current OMB requirements under the Uniform Guidance. This accounting and procedures manual should be monitored and revised annually as necessary.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and we will begin drafting the necessary written documentation to comply with the Uniform Guidance.

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2016-005 Title I Grants to Local Educational Agencies—CFDA No. 84.010.

Recommendation: The school should document and implement policies and procedures to maintain test security.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and we will begin drafting the necessary written documentation to comply with the Uniform Guidance.

2016-006 Title I Grants to Local Educational Agencies—CFDA No. 84.010.

Recommendation: Management should ensure reports are filed timely within regulatory guidelines.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and we will begin drafting the necessary written documentation to comply with the Uniform Guidance.

Sincerely,

A handwritten signature in black ink that reads "Kim Richardson". The signature is written in a cursive, flowing style.

Kim Richardson,
Business Manager