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

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

February 25, 2019


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

We have reviewed the report prepared by 21st Century Charter School @ Gary, Inc. and opined upon by Crowe LLP, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of 21st Century Charter School @ Gary, Inc. as of June 30, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Crowe LLP 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 21st Century Charter School @ Gary, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

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

  
Paul D. Joyce, CPA  
State Examiner

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

**FINANCIAL STATEMENTS**

June 30, 2018 and 2017

FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 January 29, 2019, 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 LLP*

Crowe LLP

Indianapolis, Indiana  
January 29, 2019

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,136,756	\$ 984,734
Restricted cash	1,483,747	1,447,749
Grants and accounts receivable	550,672	362,720
Prepaid expenses	68,132	67,903
Due from related parties (Note 4)	74,973	78,538
Property and equipment, net (Note 2)	<u>10,700,328</u>	<u>11,125,339</u>
Total assets	<u>\$ 14,014,608</u>	<u>\$ 14,066,983</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 860,405	\$ 860,921
Due to related parties (Note 4)	33,560	41,594
Bonds and notes payable, net (Note 3)	<u>13,002,577</u>	<u>13,260,430</u>
Total liabilities	13,896,542	14,162,945
<b>NET ASSETS</b>		
Unrestricted	<u>118,066</u>	<u>(95,962)</u>
Total net assets	<u>118,066</u>	<u>(95,962)</u>
Total liabilities and net assets	<u>\$ 14,014,608</u>	<u>\$ 14,066,983</u>

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See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Public support and revenues</b>		
Federal grants	\$ 2,118,829	\$ 1,267,356
State and local grants	8,230,988	8,004,763
Education supporting services	54,171	16,921
Rental income	-	75,000
Loss on disposal of equipment	-	(1,624)
Total revenue and support	<u>10,403,988</u>	<u>9,362,416</u>
<b>Expenses</b>		
Federal grant funded program activities	\$ 2,009,034	\$ 1,267,356
State and local grant funded program activities	5,182,298	4,984,300
School operations and building services	2,370,208	2,406,188
Education supporting services	622,504	532,459
Administrative	5,916	5,528
Total expenses	<u>10,189,960</u>	<u>9,195,831</u>
Change in net assets	214,028	166,585
Net assets at beginning of year	<u>(95,962)</u>	<u>(262,547)</u>
Net assets, end of year	<u>\$ 118,066</u>	<u>\$ (95,962)</u>

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See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 214,028	\$ 166,585
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	534,601	592,777
Loss on disposal of property and equipment	-	1,624
Change in assets and liabilities:		
Grants and accounts receivable	(187,952)	28,014
Prepaid expenses	(229)	(14,097)
Due to/from related parties	(4,469)	41,780
Accounts payable and accrued other expenses	<u>(516)</u>	<u>73,681</u>
Net cash from operating activities	<u>555,463</u>	<u>890,364</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(62,443)	(169,419)
Proceeds (deposits) to restricted cash	<u>(35,998)</u>	<u>(28,397)</u>
Net cash from investing activities	<u>(98,441)</u>	<u>(197,816)</u>
<b>Cash flows from financing activities</b>		
Principal payments on bonds and notes payable	<u>(305,000)</u>	<u>(250,000)</u>
Net cash used by financing activities	<u>(305,000)</u>	<u>(250,000)</u>
Net change in cash and cash equivalents	152,022	442,548
Cash and cash equivalents, beginning of year	<u>984,734</u>	<u>542,186</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,136,756</u>	<u>\$ 984,734</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 802,638	\$ 813,807

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
Years ended June 30, 2018 and 2017

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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, 2018 and 2017.

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, 2018 and 2017. The allowances are based upon prior experience and management’s analysis of specific receivables and promises to give. Losses are charged off to the reserve when management deems further collection efforts will no longer produce additional recoveries. The School currently considers all receivables to be fully collectible.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
Years ended June 30, 2018 and 2017

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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, 2018 and 2017, management believes that no impairment exists.

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.

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, 2018 and 2017.

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, 2018 and 2017.

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. This includes the School's basic grant support from the State which is based on per-pupil funding. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
Years ended June 30, 2018 and 2017

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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. Total program expenses were \$7,715,726 and \$7,243,341, respectively, for the years ended June 30, 2018 and 2017. Total management and general expenses were \$2,474,234 and \$1,952,490, respectively, for the years ended June 30, 2018 and 2017. The School did not incur any fundraising expenses during either year.

Advertising: The School expenses advertising costs as incurred. During 2018 and 2017, expenses totaling \$12,598 and \$34,098 were incurred for advertising.

Recent Accounting Guidance: In August 2016, the FASB issued ASU 2016-14 Non-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The guidance in this ASU substantially changes the financial statement presentation and disclosure requirements of not-for-profit entities to provide more relevant information about their financial resources, liquidity and changes to those financial resources. These changes include qualitative and quantitative requirements in the presentation and disclosure of net asset classes, investment return, expenses, liquidity and availability of resources, and operating cash flows. The ASU will be effective for School's fiscal year ending June 30, 2019. The School is currently assessing the impact of ASU 2016-14 on its financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2018, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2018. Management has performed their analysis through January 29, 2019, 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>2018</u>	<u>2017</u>
Land	\$ 296,500	\$ 296,500
Building and building improvements	11,489,669	11,489,669
Equipment	<u>2,508,535</u>	<u>2,466,422</u>
	14,294,704	14,252,591
Less: accumulated depreciation	<u>(3,594,376)</u>	<u>(3,127,252)</u>
	<u>\$ 10,700,328</u>	<u>\$ 11,125,339</u>

Depreciation expense for the years ended June 30, 2018 and 2017 were \$487,454 and \$536,912, respectively.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 Years ended June 30, 2018 and 2017

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**NOTE 3 – BONDS AND NOTES PAYABLE**

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

	<u>2018</u>	<u>2017</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.	\$ 5,360,000	\$ 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.	-	50,000
Note payable to State of Indiana Treasurer 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>765,000</u>	<u>855,000</u>
	13,480,000	13,785,000
Bond issuance cost, net of accumulated amortization	<u>(477,423)</u>	<u>(524,570)</u>
Total bonds and notes payable	<u>\$ 13,002,577</u>	<u>\$ 13,260,430</u>

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

2019	\$ 320,000
2020	335,000
2021	350,000
2022	365,000
2023	380,000
Thereafter	<u>11,730,000</u>
	<u>\$ 13,480,000</u>

Total interest expense during the years ended June 30, 2018 and 2017 were \$802,638 and \$813,029, respectively. The School has financial and nonfinancial covenants associated with the debt obligations. At June 30, 2018 and 2017, the School was not in compliance with certain covenants. The School obtained a waiver from the bondholder for the year ended June 30, 2018.

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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, 2018 and 2017, the School paid GEOF administrative fees of \$600,000 and \$532,459, respectively. As part of the management services provided, GEOF acts as the payor of certain operating expenses including a self-funded insurance plan for employee medical and prescription drug insurance managed by GEOF. GEOF is reimbursed by the School. During the years ended June 30, 2018 and 2017, the School paid GEOF reimbursements of \$374,699 and \$296,123, respectively, for self-insurance expense and other reimbursements. The School's board retains final authority and responsibility for financial and budgetary commitments. At June 30, 2018 and 2017, the School has a payable to GEOF for \$33,560 and \$41,594, respectively, for various transactions and a receivable from GEOF in the amount of \$74,973 and \$78,538, respectively, for overpayment of administrative fees.

The School leased space to Gary Middle College, Inc., a separate charter school also managed by GEOF, through September 30, 2016 until Gary Middle College, Inc. relocated to a different facility. Rent income totaled \$0 and \$75,000 for the years ended June 30, 2018 and 2017.

#### **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 \$148,699 and \$136,689 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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 multi-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 multi-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, 2018 and 2017 was \$305,797 and \$301,534, respectively.

**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass Through Number	Total Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Pass-Through Indiana Department of Education:			
Child Nutrition Cluster			
School Breakfast Program	10.553	9545	\$ 133,338
National School Lunch Program	10.555	9545	<u>390,057</u>
Total Child Nutrition Cluster   U.S. Department of Agriculture			523,395
 <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	S010A160014	222,366
Title I Grants to Local Educational Agencies	84.010	S010A170014	<u>1,055,537</u>
Total for Title I Grants to Local Educational Agencies			1,277,903
 Special Education Cluster			
Special Education Grants to States	84.027	17611-532-PN01	20,494
Special Education Grants to States	84.027	18611-532-PN01	<u>146,971</u>
Total Special Education cluster			167,465
 Supporting Effective Instruction State Grants			
Supporting Effective Instruction State Grants	84.367	S010A160014	53,000
Supporting Effective Instruction State Grants	84.367	S010A170014	<u>97,067</u>
Total for Supporting Effective Instruction State Grants			<u>150,067</u>
Total expenditures of federal awards			<u>\$ 2,118,830</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, 2018

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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, 2018. 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 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, 2018, and the related statements of activities, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 29, 2019.

### **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 LLP

Indianapolis, Indiana  
January 29, 2019

## 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, 2018. 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, 2018.

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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 LLP*

Crowe LLP

Indianapolis, Indiana  
January 29, 2019

21ST CENTURY CHARTER SCHOOL @ GARY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2018

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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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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.  
OTHER REPORT  
June 30, 2018

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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*.