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April 30, 2019

Charter School Board
Career Academy of South Bend, Inc.
3801 Crescent Circle
South Bend, IN 46628

We have reviewed the audit report of Career Academy of South Bend, Inc. which was opined upon by Kruggel, Lawton & Company LLC, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. 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, 2017 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 28 through 35. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings.

In our opinion, Kruggel, Lawton & Company LLC prepared the audit report in accordance with guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for 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
Paul D. Joyce, CPA
State Examiner



ANNUAL REPORT
June 30, 2017



CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

ANNUAL REPORT

June 30, 2017

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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 statements of Career Academy of South Bend, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 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, 2017 and 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, 2017 and 2016 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.

Correction of Error

Net assets as of June 30, 2016 have been restated to correct an error made in a prior period relating to recognition of grant revenue. As discussed in Note 2, the School recognized grant revenue received during the year ended June 30, 2017 in the wrong period. The effect of the restatement is to increase grants receivable, revenue, and net assets each in the amount of \$96,375 at June 30, 2016.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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 March 26, 2019, 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 the effectiveness of the Career Academy of South Bend, Inc.'s 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
March 26, 2019

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	359,628	52,939
Accounts receivable	109,292	27,673
Grants receivable	884,556	944,344
Prepaid expenses	41,461	12,228
Inventory	7,654	0
Total Current Assets	1,402,591	1,037,184
PROPERTY AND EQUIPMENT		
Land	376,200	302,400
Buildings	25,604,342	25,212,335
Office furniture and equipment	4,174,520	3,857,960
Construction in progress	20,884	1,170
Total	30,175,946	29,373,865
Accumulated depreciation	4,407,805	2,978,048
Net Property and Equipment	25,768,141	26,395,817
TOTAL ASSETS	27,170,732	27,433,001
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	387,777	256,684
Accounts payable	158,136	184,168
Accrued payroll, benefits, and related taxes	3,714	7,144
Deferred revenue	2,916	0
Accrued interest	13,041	13,803
Other accrued expenses	49,148	30,596
Total Current Liabilities	614,732	492,395
LONG-TERM LIABILITIES		
Long-term debt	29,903,043	30,323,269
TOTAL LIABILITIES	30,517,775	30,815,664
UNRESTRICTED NET ASSETS	(3,347,043)	(3,382,663)
TOTAL LIABILITIES AND NET ASSETS	27,170,732	27,433,001

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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE:				
Federal grants	1,256,465	0	0	1,256,465
Non-federal grants	594,735	0	0	594,735
State education support	8,677,494	0	0	8,677,494
Contributions	1,257,553	0	0	1,257,553
Rent	1,203	0	0	1,203
Other income	87,586	0	0	87,586
Heroes Hangout	36,558	0	0	36,558
Student fees	191,445	0	0	191,445
In-kind donations	24,000	0	0	24,000
Total Revenue	12,127,039	0	0	12,127,039
EXPENSES				
Program Services:				
High School	3,622,506	0	0	3,622,506
Middle School	3,856,472	0	0	3,856,472
Primary School	3,249,409	0	0	3,249,409
Total Program Services	10,728,387	0	0	10,728,387
Management and General	1,363,032	0	0	1,363,032
Total Expenses	12,091,419	0	0	12,091,419
CHANGE IN NET ASSETS	35,620	0	0	35,620
NET ASSETS, BEGINNING OF YEAR AS RESTATED	(3,382,663)	0	0	(3,382,663)
NET ASSETS, END OF YEAR	(3,347,043)	0	0	(3,347,043)

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	1,069,649	0	0	1,069,649
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 Revenue	10,909,033	0	0	10,909,033
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 AS PREVIOUSLY STATED	(1,570,829)	0	0	(1,570,829)
PRIOR PERIOD ADJUSTMENT UNDERSTATEMENT OF REVENUE	96,375	0	0	96,375
CHANGE IN NET ASSETS AS RESTATED	(1,474,554)	0	0	(1,474,554)
NET ASSETS, BEGINNING OF YEAR	(1,908,109)	0	0	(1,908,109)
NET ASSETS, END OF YEAR AS RESTATED	(3,382,663)	0	0	(3,382,663)

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, 2017

	<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	1,654,863	1,844,690	1,913,088	5,412,641	855,595	6,268,236
Employee benefits	333,925	358,441	359,554	1,051,920	163,708	1,215,628
Payroll taxes	123,795	140,671	151,443	415,909	67,981	483,890
Advertising expense	2,463	2,462	3,080	8,005	57,241	65,246
Bank charges	0	0	0	0	1,849	1,849
Information technology	47,867	33,412	28,418	109,697	7,595	117,292
Insurance	15,511	15,506	19,392	50,409	26,482	76,891
Interest expense	162,604	122,769	36,071	321,444	14,991	336,435
Student transportation	10,425	6,712	7,925	25,062	0	25,062
Equipment	28,062	14,395	19,446	61,903	2,707	64,610
Supplies	156,526	86,808	85,711	329,045	24,230	353,275
Other	55,540	67,646	78,357	201,543	4,300	205,843
Professional fees	99,475	71,286	99,338	270,099	100,867	370,966
Rent	19,488	15,309	18,011	52,808	0	52,808
Repairs and maintenance	39,512	35,696	35,582	110,790	2,819	113,609
Travel	11,063	3,476	2,625	17,164	10,165	27,329
Professional development	0	800	15,600	16,400	0	16,400
Food cost	73,166	101,372	120,004	294,542	10,768	305,310
Occupancy	157,469	145,810	167,141	470,420	0	470,420
Staff development and recruitment	23,216	24,163	31,449	78,828	11,734	90,562
Depreciation	607,536	765,048	57,174	1,429,758	0	1,429,758
Total Functional Expenses	3,622,506	3,856,472	3,249,409	10,728,387	1,363,032	12,091,419

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	35,620	(1,474,554)
Adjustments to reconcile change in assets to net cash from (used by) operating activities:		
Depreciation	1,429,758	1,174,525
Donated land	(73,803)	0
Debt forgiveness	(1,150,000)	(1,350,000)
Adjustments for changes in operating assets and liabilities:		
Accounts receivable	(81,619)	(17,038)
Grants receivable	59,788	(825,970)
Prepaid expenses	(29,233)	39,970
Inventory	(7,654)	0
Accounts payable	(26,032)	(31,641)
Accrued payroll, benefits, and related taxes	(3,430)	6,515
Deferred revenue	2,916	0
Accrued interest	264,116	270,503
Other accrued expenses	18,552	(53,143)
Net Cash Flows from (used by) Operating Activities	438,979	(2,260,833)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(728,279)	0
Net Cash Flows used by Investing Activities	(728,279)	0
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	1,700,000	5,054,423
Principal payments on long-term debt	(1,104,010)	(2,946,878)
Net Cash Flows provided by Financing Activities	595,990	2,107,545
CHANGE IN CASH	306,690	(153,288)
CASH AT BEGINNING OF YEAR	52,938	206,226
CASH AT END OF YEAR	359,628	52,938
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS		
Interest paid	70,795	74,285
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment		
Cost of property and equipment	0	11,800,324
Loan	0	(11,800,324)
Donated land	73,803	0

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 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 years ended June 30, 2017 and 2016, the School was sponsored by Trine University.

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 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.

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 Schools. 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 or its 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 or its School. There were no permanently restricted net assets at June 30, 2017 or 2016.

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, 2017 and 2016

CASH AND CASH EQUIVALENTS

For purposes of the Statement 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, 2017 or 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. The School received donated assets in the amount of \$73,803 for the year ended June 30, 2017. 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 years ended June 30, 2017 and 2016 was \$1,429,758 and \$1,174,525, respectively. Construction in progress of \$20,884 and \$1,170 was not depreciated as of June 30, 2017 and 2016, respectively.

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

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

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

REVENUE RECOGNITION

Revenues generally come from resources provided 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 costs for the years ended June 30, 2017 and 2016 were \$65,246 and \$271,406, respectively.

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 years ended June 30, 2017 and 2016.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 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 the financial statements. The evaluation was performed for all federal and state tax periods still subject to examination. The School's 2013 through 2015 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, 2017 and 2016.

NOTE 2 - PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for the year ended June 30, 2016 have been restated to correct an error made in that year in relation to recognition of grant revenue. The School recognized a grant receipt received during the year ended June 30, 2017 in revenue in 2017. The grant revenue should have been recognized during the year ended June 30, 2016. The effect of the restatement was to increase grant revenue, grants receivable, and net assets at June 30, 2016 each in the amount of \$96,375.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 3 - LONG-TERM DEBT

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

	<u>2017</u>	<u>2016</u>
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.	17,824,563	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 School with the exception of the technology assets that were financed by the note to the City of South Bend as described below.	8,406,417	8,321,652
Note payable to Crescent Michiana Properties, LLC, in monthly installments of \$8,520, including interest at 7.25% per annum through March 2018. The note is secured by land and building property and is guaranteed by the Garatoni Family Foundation. Subsequent to year end, the note was amended to extend the due date through December 2021.	379,360	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.	2,608,036	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	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, 2017. The note is secured by technology equipment and related technology infrastructure purchased with the proceeds of the note.	357,444	357,444
Total	30,290,820	30,579,953
Current portion of long-term debt	387,777	256,684
Net long-term debt	29,903,043	30,323,269

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

2019	399,650
2020	406,776
2021	414,405
2022	353,102
Thereafter	28,329,110
Total	29,903,043

Interest expense for the years ended June 30, 2017 and 2016 was \$336,435 and \$317,182, including \$264,878 and \$256,700 that is aggregated into the notes due to the Garatoni Family Foundation and Larry Garatoni at June 30, 2017 and 2016.

NOTE 4 - OPERATING LEASES

The School leases certain items of equipment under operating leases. The equipment leases provide for monthly lease payments in the amount of \$3,254 through July 2020. Lease expense under operating leases for the years ended June 30, 2017 and 2016 was \$39,046 and \$35,792, respectively.

The future minimum payments under leases are as follows for the year ending June 30:

2018	39,046
2019	39,046
2020	39,046
2021	3,254
Total	120,392

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 \$376,167 and \$372,065 for the years ended June 30, 2017 and June 30, 2016.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 6 - RELATED PARTY TRANSACTIONS

The Garatoni Foundation and Larry Garatoni, individually periodically provide financing to the School. Larry Garatoni is the President of the School's Board of Directors and the Chief Executive Officer of HQ Investments Corporation, which manages the investments of The Garatoni Family Foundation. The School also received contributions through debt forgiveness totaling \$1,150,000 and \$1,350,000, from The Garatoni Family Foundation in the years ended June 30, 2017 and June 30, 2016, respectively.

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.

Included in the School's Statement of Financial Position are costs of property and equipment obtained with federal funds. Consequently, there is a continuing federal interest in the related property and equipment. The property and equipment may not (1) be used for any purpose inconsistent with the statute and any program regulations governing the award under which the property and equipment was acquired; (2) mortgaged or otherwise used as collateral without written permission; or (3) sold or transferred to another party without written permission. The cost of property and equipment obtained with federal funds included in the Statement of Financial Position was \$235,676 and \$0 at June 30, 2017 and June 30, 2016, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The School has evaluated subsequent events through March 26, 2019, the date the financial statements were available to be issued. Except for the note amendment described in Note 3, no events or transactions occurred during this period which require revenue recognition or disclosure in the financial statements.



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 years ended June 30, 2017 and 2016, and our report thereon dated March 26, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were 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,


Certified Public Accountants

Elkhart, Indiana
March 26, 2019

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

STATEMENT OF FINANCIAL POSITION BY DIVISION

June 30, 2017

(with comparative totals at 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>2017</u>	<u>2016</u>
CURRENT ASSETS							
Cash	70,749	814,836	1,183,373	(1,709,330)	0	359,628	52,939
Accounts receivable	8,505	309	2,662	97,816	0	109,292	27,673
Grants receivable	210,725	270,082	403,749	0	0	884,556	944,344
Prepaid expenses	19,578	3,095	2,751,382	12,406	(2,745,000)	41,461	12,228
Inventory	1,787	2,681	3,186	0	0	7,654	0
Total Current Assets	311,344	1,091,003	4,344,352	(1,599,108)	(2,745,000)	1,402,591	1,037,184
PROPERTY AND EQUIPMENT							
Land	233,200	143,000	0	0	0	376,200	302,400
Buildings	11,834,649	13,769,693	0	0	0	25,604,342	25,212,335
Office furniture and equipment	1,930,527	2,009,626	234,367	0	0	4,174,520	3,857,960
Construction in progress	20,884	0	0	0	0	20,884	1,170
Total	14,019,260	15,922,319	234,367	0	0	30,175,946	29,373,865
Accumulated depreciation	3,001,211	1,349,420	57,174	0	0	4,407,805	2,978,048
Net Property and Equipment	11,018,049	14,572,899	177,193	0	0	25,768,141	26,395,817
TOTAL ASSETS	11,329,393	15,663,902	4,521,545	(1,599,108)	(2,745,000)	27,170,732	27,433,001

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

STATEMENT OF FINANCIAL POSITION BY DIVISION

June 30, 2017

(with comparative totals at June 30, 2016)

	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND NET ASSETS</u>							
CURRENT LIABILITIES							
Current portion of long-term debt	77,279	35,968	274,530	0	0	387,777	256,684
Accounts payable	57,456	32,770	23,541	44,369	0	158,136	184,168
Accrued payroll, benefits, and related taxes	308	0	366	3,040	0	3,714	7,144
Deferred revenue	681	1,021	1,214	0	0	2,916	0
Accrued interest	0	0	13,041	0	0	13,041	13,803
Other accrued expenses	15,767	2,762,391	15,990	0	(2,745,000)	49,148	30,596
Total Current Liabilities	151,491	2,832,150	328,682	47,409	(2,745,000)	614,732	492,395
LONG-TERM LIABILITIES							
Long-term debt	13,455,573	11,671,343	3,269,086	1,507,041	0	29,903,043	30,323,269
Total Long-Term Liabilities	13,455,573	11,671,343	3,269,086	1,507,041	0	29,903,043	30,323,269
TOTAL LIABILITIES	13,607,064	14,503,493	3,597,768	1,554,450	(2,745,000)	30,517,775	30,815,664
UNRESTRICTED NET ASSETS							
Total Net Assets	(2,277,671)	1,160,409	923,777	(3,153,558)	0	(3,347,043)	(3,382,663)
TOTAL LIABILITIES AND NET ASSETS	11,329,393	15,663,902	4,521,545	(1,599,108)	(2,745,000)	27,170,732	27,433,001

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

STATEMENT OF ACTIVITIES BY DIVISION

For the Year Ended June 30, 2017 (with comparative totals 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>2017 Amount</u>	<u>2016 Amount</u>
REVENUES:							
Federal grants	257,148	331,198	668,119	0	0	1,256,465	1,069,649
Non-federal grants	151,235	200,500	243,000	0	0	594,735	420,253
State education support	2,187,446	2,904,033	3,586,015	0	0	8,677,494	7,766,207
Contributions	553,642	675,929	4,425	23,557	0	1,257,553	1,408,075
Rent	0	120	40	1,043	0	1,203	3,300
Other income	36,757	8,491	7,901	34,437	0	87,586	80,014
Heroes Hangout	0	16,244	20,314	0	0	36,558	61,976
Student fees	102,478	56,403	28,040	4,524	0	191,445	75,559
In-kind donations		0	0	24,000	0	24,000	24,000
Total Revenues	3,288,706	4,192,918	4,557,854	87,561	0	12,127,039	10,909,033
EXPENSES	3,622,506	3,856,472	3,249,409	1,363,032	0	12,091,419	12,383,587
CHANGE IN NET ASSETS	(333,800)	336,446	1,308,445	(1,275,471)	0	35,620	(1,474,554)
NET ASSETS, BEGINNING OF YEAR	(1,943,871)	823,963	(384,668)	(1,878,087)	0	(3,382,663)	(1,908,109)
NET ASSETS, END OF YEAR	(2,277,671)	1,160,409	923,777	(3,153,558)	0	(3,347,043)	(3,382,663)

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

STATEMENT OF EXPENSES BY DIVISION

For the Year Ended June 30, 2017

(with comparative totals 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>2017 Amount</u>	<u>2016 Amount</u>
Salaries and wages	1,654,863	1,844,690	1,913,088	855,595	0	6,268,236	6,453,669
Employee benefits	333,925	358,441	359,554	163,708	0	1,215,628	1,076,276
Payroll taxes	123,795	140,671	151,443	67,981	0	483,890	522,424
Advertising expense	2,463	2,462	3,080	57,241	0	65,246	271,406
Bank charges	0	0	0	1,849	0	1,849	834
Information technology	47,867	33,412	28,418	7,595	0	117,292	194,572
Insurance	15,511	15,506	19,392	26,482	0	76,891	66,045
Interest expense	162,604	122,769	36,071	14,991	0	336,435	317,182
Student transportation	10,425	6,712	7,925	0	0	25,062	28,578
Equipment	28,062	14,395	19,446	2,707	0	64,610	45,772
Supplies	156,526	86,808	85,711	24,230	0	353,275	827,276
Other	55,540	67,646	78,357	4,300	0	205,843	191,492
Professional fees	99,475	71,286	99,338	100,867	0	370,966	379,887
Property taxes	0	0	0	0	0	0	12,830
Rent	19,488	15,309	18,011	0	0	52,808	59,841
Repairs and maintenance	39,512	35,696	35,582	2,819	0	113,609	105,526
Travel	11,063	3,476	2,625	10,165	0	27,329	47,209
Professional development	0	800	15,600	0	0	16,400	5,625
Food cost	73,166	101,372	120,004	10,768	0	305,310	25,953
Occupancy	157,469	145,810	167,141	0	0	470,420	482,774
Staff development and recruitment	23,216	24,163	31,449	11,734	0	90,562	93,891
Depreciation	607,536	765,048	57,174	0	0	1,429,758	1,174,525
Total Expenses	3,622,506	3,856,472	3,249,409	1,363,032	0	12,091,419	12,383,587

FEDERAL AWARDS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2017

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 Agriculture				
Passed-through the Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 2016-2017	23,953	0
National School Lunch Program	10.555	FY 2016-2017	189,791	0
Total Child Nutrition Cluster			<u>213,744</u>	<u>0</u>
Total United States Department of Agriculture			<u>213,744</u>	<u>0</u>
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	17-9960	189,448	0
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	17-9965	142,575	0
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	17-9880	106,267	0
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	S010A160014	45,000	0
Total Title I, Part A			<u>483,290</u>	<u>0</u>
Special Education Cluster (IDEA)				
Special Education-Grants to States, (IDEA, Part B)	84.027	9980	54,462	0
Special Education-Grants to States (IDEA, Part B)	84.027	9965	100,528	0
Special Education-Grants to States (IDEA, Part B)	84.027	9960	106,359	0
Total Special Education Cluster (IDEA)			<u>261,349</u>	<u>0</u>
Charter Schools Program				
Charter Schools	84.282	FY 2015-2016	298,082	0
Total Department of Education			<u>1,042,721</u>	<u>0</u>
Total Expenditures of Federal Awards			<u>1,256,465</u>	<u>0</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

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, 2017. 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 costs 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.

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. (the "School") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 March 26, 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.

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 have not been 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: 2017-001.

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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2017-002 and 2017-003.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-004.

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
March 26, 2019



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 (the "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, 2017. 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 major federal programs. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Title I Grants to Local Educational Agencies CFDA 84.010 and Special Education Cluster CFDA 84.027

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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 2017-007. 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.

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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-005 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-006 to be a significant deficiency.

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,


Certified Public Accountants

Elkhart, Indiana
March 26, 2019

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

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? Yes

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section

200.516(a)? Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
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84.010	Title I Grants to Local Agencies
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84.027	Special Education Cluster
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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, 2017

Section II - Financial Statement Findings

MATERIAL WEAKNESS

2017-001 PRIOR PERIOD ADJUSTMENT

Condition: The School received grant proceeds during the year ended June 30, 2017. These proceeds were related to the expenditures incurred during the year ended June 30, 2016.

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 each understated by \$96,375 for the year ended June 30, 2016.

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

Identification of repeat findings: This finding is not a repeat finding.

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, 2017

SIGNIFICANT DEFICIENCY

2017-002 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.

Identification of repeat findings: This finding is a repeat finding previously included as finding number 2016-002 in the June 30, 2016 financial statements.

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, 2017

SIGNIFICANT DEFICIENCY

2017-003

DOCUMENT RETENTION

Condition:

There were deficiencies in the internal control system of the School related to document retention.

We were unable to verify the review and approval of a time sheet as it was misplaced in the transition from payroll processed internally to payroll processed by a third party provider.

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 transition of payroll duties resulted in the misplacement of relevant documentation.

Effect:

It was not possible to verify the support for the employee's hours processed for payroll.

Recommendation:

The School should strengthen controls relative to document retention.

Identification of repeat findings:

This finding is not a repeat finding.

View of Responsible Officials and Planned Corrective Actions:

Management agrees with the finding and will review the internal control procedures over payroll in order to ensure retention of necessary documentation.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2017-004 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.

Identification of repeat findings: This finding is a repeat finding previously included as finding number 2016-003 in the June 30, 2016 financial statements.

View of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will begin implementing policies and procedures to comply with the uniform compliance requirements 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, 2017

Section III - Federal Award Findings and Questioned Costs

MATERIAL WEAKNESS

2017-005 WRITTEN FEDERAL PROCEDURES

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
Special Education Cluster

CFDA Number: 84.010
84.027

*Federal Award
Numbers and Years* 17-9880, 17-9965, 17-9960, S010A160014
9980, 9965, 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.

*Identification of
repeat findings:* This finding is a repeat finding previously included as finding number 2016-004 in the June 30, 2016 financial statements.

*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, 2017

SIGNIFICANT DEFICIENCY

2017-006

DOCUMENT RETENTION

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years: 17-9880, 17-9965, 17-9960

Condition, Criteria, Cause, Effect, Recommendation: As discussed in Finding 2017-003, there were deficiencies in the internal control system of the School related to document retention that resulted in a misplaced document during the transition of payroll processing to a third party provider. Therefore, we were unable to verify the review and approval of a time sheet for an employee paid for the specific period tested or verify it was for a period before the related federal draw request. 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. Internal controls should be reviewed and modified as necessary to ensure necessary documents are retained.

Identification of repeat findings: This is not a repeat finding.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2017-007 LATE FILING OF REPORTING PACKAGE TO FEDERAL AUDIT CLEARINGHOUSE

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
 Special Education Cluster

CFDA Number: 84.010
 84.027

Federal Award Numbers and year 17-9880, 17-9965, 17-9960, S010A160014
 9980, 9965, 9960

Condition: The reporting package due March 31, 2018 was submitted late.

Criteria: The Uniform Guidance requires reporting 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, 2018 will be determined to be high risk.

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

Identification of repeat findings: This finding is a repeat finding previously included as finding number 2016-006 in the June 30, 2016 financial statements.

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, 2017

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.

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

Current Status: A review of internal controls is in process to ensure prior period adjustments are not necessary going forward.

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.

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

Current Status: Duties are now segregated for the payroll and receipts processes.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2017

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.

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

Current Status: The written policies and procedures are in process.

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 16-9880, 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.

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.

Current Status: The written policies and procedures are in process.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2017

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 Numbers and year 16-9880, 16-9965, 16-9960

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

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

Current Status: Policies and procedures are in place for maintaining proper test security.

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 16-9880, 16-9965, 16-9960

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

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

Current Status: The written policies and procedures are in process.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

OTHER REPORT

For the Year Ended June 30, 2017

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*.