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March 17, 2021


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, 2019 to June 30, 2020. 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, 2020 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 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 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

21st CENTURY CHARTER SCHOOL @ GARY, INC.

FINANCIAL STATEMENTS

June 30, 2020 and 2019

FINANCIAL STATEMENTS
June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
21st 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, 2020 and 2019, 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.

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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Charter School @ Gary, Inc. as of June 30, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the School has adopted ASU 2016-18 – Statement of Cash Flows (Topic 230): *Restricted Cash* for the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by 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 February 19, 2021, 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 the effectiveness of the School'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 the School's internal control over financial reporting and compliance.

Crowe LLP
Crowe LLP

Indianapolis, Indiana
February 19, 2021

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 1,869,935	\$ 492,793
Restricted cash	1,508,921	1,528,320
Grants and accounts receivable	143,766	262,443
Prepaid expenses	97,021	67,712
Due from related parties (Note 4)	94,171	74,973
Property and equipment, net (Note 2)	<u>10,734,141</u>	<u>10,395,258</u>
Total assets	<u>\$ 14,447,955</u>	<u>\$ 12,821,499</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 918,227	\$ 969,257
Due to related parties (Note 4)	21,798	16,277
Grant advance liability (Note 9)	188,682	-
Bonds and notes payable, net (Note 3)	<u>12,742,498</u>	<u>12,726,007</u>
Total liabilities	13,871,205	13,711,541
NET ASSETS		
Without donor restrictions	<u>576,750</u>	<u>(890,042)</u>
Total liabilities and net assets	<u>\$ 14,447,955</u>	<u>\$ 12,821,499</u>

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Public support and revenues		
Federal grants	\$ 3,734,830	\$ 2,202,102
State and local grants	10,967,763	7,897,546
Supporting services	102,944	38,195
Loss on disposal of equipment	<u>-</u>	<u>(47,861)</u>
Total revenue and support	<u>14,805,537</u>	<u>10,089,982</u>
Expenses		
Education services	12,517,862	10,299,148
Management and general	<u>820,883</u>	<u>798,942</u>
Total expenses	<u>13,338,745</u>	<u>11,098,090</u>
Change in net assets	1,466,792	(1,008,108)
Net assets without donor restrictions, beginning of year	<u>(890,042)</u>	<u>118,066</u>
Net assets without donor restrictions, end of year	<u>\$ 576,750</u>	<u>\$ (890,042)</u>

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 1,466,792	\$ (1,008,108)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	586,138	531,583
Loss on disposal of property and equipment	-	47,861
Change in assets and liabilities:		
Grants and accounts receivable	118,677	288,229
Prepaid expenses	(29,309)	420
Due to/from related parties	(13,677)	(17,283)
Accounts payable and accrued other expenses	(51,030)	108,852
Grant advance liability	<u>188,682</u>	<u>-</u>
Net cash from operating activities	<u>2,266,273</u>	<u>(5,016)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(882,976)</u>	<u>(274,374)</u>
Net cash from investing activities	<u>(882,976)</u>	<u>(274,374)</u>
Cash flows from financing activities		
Proceeds on issuance of notes payable	368,159	-
Principal payments on bonds and notes payable	<u>(393,713)</u>	<u>(320,000)</u>
Net cash from financing activities	<u>(25,554)</u>	<u>(320,000)</u>
Net change in cash and cash equivalents	1,357,743	599,390
Cash and cash equivalents, beginning of year	<u>2,021,113</u>	<u>2,620,503</u>
Cash and cash equivalents, end of year	<u>\$ 3,378,856</u>	<u>\$ 2,021,113</u>
Reconciliation of cash to the Statements of Financial Position:		
Cash and cash equivalents	\$ 1,869,935	\$ 492,793
Restricted cash	<u>1,508,921</u>	<u>1,528,320</u>
Total cash and cash equivalents	<u>\$ 3,378,856</u>	<u>\$ 2,021,113</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 797,855	\$ 788,712

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

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, 2020 and 2019.

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, 2020 and 2019. 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.

(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

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, 2020 and 2019, 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 two classes of net assets:

Net Assets Without Donor Restrictions – The net asset without donor restrictions class includes general assets and liabilities of the School. The net assets without donor restrictions of the School may be used at the discretion of management to support the School's purposes and operations.

Net Assets With Donor Restrictions – The net asset with donor restrictions 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 net asset with donor restrictions class also 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 net assets with donor restrictions as of June 30, 2020 and 2019.

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.

Functional and Allocated Expenses: Expenses have been classified as program services and supporting services based on the actual direct expenditures and estimated cost allocations. Salaries and related expenses are charged based upon time estimates of personnel. Supporting services include management and general activities of the School. The School did not incur any fundraising expenses for the years ended June 30, 2020 and 2019.

(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 Years ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising: The School expenses advertising costs as incurred. During 2020 and 2019, expenses totaling \$56,908 and \$32,938 were incurred for advertising.

Recently Adopted Accounting Guidance: In November 2016, the FASB issued ASU 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this Update require that a statement of cash flows explain the change during the period of total cash, cash equivalents, and amounts generally described as restricted cash of cash equivalents. Therefore, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents on the statement of cash flows. The School applied the amendments in this ASU for the year ended June 30, 2020, including retrospective adoption to the year ended June 30, 2019.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2020, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2020. Management has performed their analysis through February 19, 2021, 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>2020</u>	<u>2019</u>
Land	\$ 296,500	\$ 296,500
Building and building improvements	11,699,920	11,523,369
Equipment	<u>2,663,510</u>	<u>1,959,085</u>
	14,659,930	13,778,954
Less: accumulated depreciation	<u>(3,925,789)</u>	<u>(3,383,696)</u>
	<u>\$ 10,734,141</u>	<u>\$ 10,395,258</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$544,094 and \$488,153, respectively.

NOTE 3 - OPERATING LEASES

The School leases modular space and vehicles under various non-cancelable operating leases which expire at various dates through fiscal year 2022. The future maturities lease payments under operating leases are as follows:

2021	\$ 34,100
2022	<u>34,100</u>
	<u>\$ 68,200</u>

Operating lease expense for the year ended June 30, 2020 and 2019 was approximately \$90,044 and \$0, respectively.

(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 Years ended June 30, 2020 and 2019

NOTE 4 – BONDS AND NOTES PAYABLE

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

	<u>2020</u>	<u>2019</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 began on February 28, 2018.	\$ 4,885,000	\$ 5,130,000
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
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.	585,000	675,000
Note payable for equipment purchase, payable in monthly payments of \$7,026, including interest computed at 7.50%, through maturity in July 2024.	295,918	-
Note payable for equipment purchase, payable in monthly payments of \$846, including interest computed at 7.50%, through maturity in December 2021.	<u>13,529</u>	<u>-</u>
	13,134,447	13,160,000
Bond issuance cost, net of accumulated amortization	<u>(391,949)</u>	<u>(433,993)</u>
Total bonds and notes payable, net	<u>\$ 12,742,498</u>	<u>\$ 12,726,007</u>

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

2021	\$ 423,031
2022	439,271
2023	454,681
2024	480,481
2025	421,983
Thereafter	<u>10,915,000</u>
	<u>\$ 13,134,447</u>

Total interest expense during the years ended June 30, 2020 and 2019 were \$792,505 and \$783,625, respectively. The School has financial and nonfinancial covenants associated with the bond obligations. At June 30, 2020 and 2019, the School was not in compliance with certain covenants. The bondholder has provided a forbearance agreement through January 30, 2022.

(Continued)

NOTE 5 - 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, 2020 and 2019, the School paid GEOF administrative fees of \$791,475 and \$634,947, 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, 2020 and 2019, the School paid GEOF reimbursements of \$490,475 and \$414,701, 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, 2020 and 2019, the School has a payable to GEOF for \$21,798 and \$16,277, respectively, for various transactions and a receivable from GEOF in the amount of \$94,171 and \$74,973, respectively, for overpayment of administrative fees.

In July 2019, the School and GEOF entered into a building lease agreement for a second facility to expand operations for the 2019-2020 school year. The agreement requires monthly rent payments of \$30,000 maturing on June 30, 2023. Rent expense for the year ended June 30, 2020 was \$360,000. There was no rent expense for the year ending June 30, 2019.

NOTE 6 - 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 \$275,876 and \$143,380 for the years ended June 30, 2020 and 2019, respectively.

In June 2020, Ball State University, the School's charter authorizer, placed the School on probation in relation to certain governance conditions of the charter. The School's Board is working closely with Ball State University to address these concerns. The School has continued business operations during this probation period.

NOTE 7 - 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, 2020 and 2019.

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, 2020 and 2019 was \$398,642 and \$382,210, respectively.

(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2020 and 2019

NOTE 8 – FUNCTIONAL EXPENSES BY NATURE

The statements of activities report certain categories of expenses attributable to the program and supporting functions of the School. Functions include program expense for education services and management and general activities. The table below presents these functional expenses by their natural classification for the years ended June 30, 2020 and 2019, respectively.

	2020		
	Education Services	Management and General	Total
Salaries and benefits	\$ 7,227,051	\$ -	\$ 7,227,051
Student support and supplies	1,387,237	-	1,387,237
Office and operation expense	472,302	-	472,302
Depreciation and amortization	586,138	-	586,138
Building and grounds	2,132,320	-	2,132,320
Service contracts	712,814	820,883	1,553,697
Total expenses	\$ 12,517,862	\$ 820,883	\$ 13,338,745
	2019		
	Education Services	Management and General	Total
Salaries and benefits	\$ 6,410,143	\$ -	\$ 6,410,143
Student support and supplies	1,213,655	-	1,213,655
Office and operation expense	308,139	-	308,139
Depreciation and amortization	531,583	-	531,583
Building and grounds	1,277,247	-	1,277,247
Service contracts	558,381	798,942	1,357,323
Total expenses	\$ 10,299,148	\$ 798,942	\$ 11,098,090

(Continued)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 Years ended June 30, 2020 and 2019

NOTE 9 - LIQUIDITY AND AVAILABILITY

The School's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,869,935	\$ 492,793
Restricted cash	1,508,921	1,528,320
Grants and accounts receivable	143,766	262,443
Due from related parties	<u>94,171</u>	<u>74,973</u>
	3,616,793	2,358,529
Less amount not available to be used within one year:		
Restricted cash	<u>1,508,921</u>	<u>1,528,320</u>
 Financial assets available to meet general expenditures Within one year	 <u>\$ 2,107,872</u>	 <u>\$ 830,209</u>

As noted in Note 1, restricted cash consists of funds held in trust accounts for capital expenditures and debt service reserves. As a result, this restricted cash is not available for general expenditures and must be removed from the available assets within one year amount disclosed above. As part of the School's liquidity management, the School invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 10 – COVID-19 IMPACT AND PAYCHECK PROTECTION PROGRAM (PPP)

In December 2019, a novel strain of coronavirus surfaced and spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In response to the pandemic and in compliance with various state and local ordinances, the School moved to online instruction from March 2020 through the end of the 2019-2020 academic year. In August 2020, the School provided its students with the option to attend classes in person or online for the 2020-2021 academic year. The operations and business results of the School could be materially adversely affected in the future.

As a result of the economic uncertainty stemming from the impact of the COVID-19 pandemic, in April 2020, the School received a Paycheck Protection Program (PPP) Loan under the principal amount of \$1,200,000 from the United States Small Business Administration (SBA).

Under the terms of the Paycheck Protection Program, a PPP loan provides for conditional forgiveness if the Organization utilizes the loan proceeds on admissible expenses, including qualifying payroll, rent, and utility expenses, and maintains employment and compensation levels over the covered period. Although the Organization believes the conditions for full forgiveness of the PPP loan will be met, ultimate forgiveness is conditioned upon the SBA concurring with the Organization's good-faith assessment that the current economic uncertainty made the loan request necessary to support ongoing operations and the loan proceeds were used for admissible expenses.

If the Organization is later determined to have violated the provisions of the Payroll Protection Program, the Organization may be required to repay the PPP loan in its entirety and/or be subject to additional penalties. If any portion of the PPP Loan is not forgiven, the remaining amount will have a two-year repayment period and the interest rate on the loan will be 1%.

(Continued)

NOTE 10 – COVID-19 IMPACT AND PAYCHECK PROTECTION PROGRAM (PPP) (Continued)

The School is accounting for the PPP Loan as a conditional contribution under ASC 958-605. Under Subtopic 958-605, the PPP loan proceeds are initially recorded as a grant advance liability on the statement of financial position and subsequently recognized as grant revenue when the Organization has substantially met all conditions for forgiveness. While formal forgiveness has not yet been obtained, the School met substantially all of the conditions on a portion of the PPP loan and recorded federal grant revenue of \$1,011,318 during the year ended June 30, 2020. The remaining conditional contribution of \$188,682 is recorded as a grant advance liability on the June 30, 2020 statement of financial position, and management expects to meet the related conditions for forgiveness during fiscal year 2021.

The School also received an allocation of Elementary and Secondary School Emergency Relief Funding through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) totaling \$1,031,278, of which \$352,432 was spent on eligible costs and recognized as revenue during the year ended June 30, 2020. The remaining revenue amount will be recognized when allowable expenses are incurred during fiscal year 2021.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2020

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	\$ 144,593
COVID-19 – School Breakfast Program	10.553	9545	24,660
National School Lunch Program	10.555	9545	423,371
COVID-19 - National School Lunch Program	10.555	9545	<u>53,095</u>
Total Child Nutrition Cluster			645,719
<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	86,149
Title I Grants to Local Educational Agencies	84.010	S010A170014	<u>1,429,244</u>
Total for Title I Grants to Local Educational Agencies			1,515,393
Special Education Cluster			
Special Education Grants to States	84.027	17611-532-PN01	32,362
Special Education Grants to States	84.027	18611-532-PN01	<u>156,891</u>
Total Special Education cluster			189,253
Student Support and Academic Enrichment	84.424A	S424A180015	15,715
COVID-19 - Education Stabilization Fund	84.425D	S425D200013	352,432
Maternal and Child Health Services Block Grant to the States	93.994	00039982	<u>5,000</u>
Total expenditures of federal awards			<u>\$ 2,723,512</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, 2020

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, 2020. 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, 2020, and the related statement of activities, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 19, 2021.

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) as a basis for designing 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.

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 financial statements. 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 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
Crowe LLP

Indianapolis, Indiana
February 19, 2021

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, 2020. 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.

Auditor's 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, 2020.

(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
February 19, 2021

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2020

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 noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
OTHER REPORT
June 30, 2020

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*.