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March 29, 2021

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, 2019 to June 30, 2020. 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, 2020 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 31 through 34. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. The Corrective Action Plan can be found on pages 38 through 39.

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, CPA
State Examiner



ANNUAL REPORT
June 30, 2020



CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

ANNUAL REPORT

June 30, 2020

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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, 2020 and 2019, 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 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, 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.

Other Matters

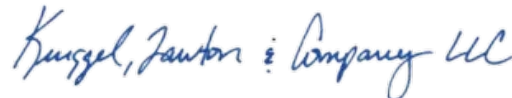
Other Information

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 11, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 11, 2021

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	1,325,734	422,638
Accounts receivable	129,255	103,987
Grants receivable	1,290,933	1,414,581
Prepaid expenses	66,810	75,350
Inventory	4,157	19,991
Total Current Assets	2,816,889	2,036,547
PROPERTY AND EQUIPMENT		
Land	386,200	376,200
Buildings	26,024,701	26,012,518
Office furniture, equipment and vehicles	3,035,841	2,845,435
Computers and software	2,031,532	1,731,565
Construction in progress	0	27,004
Total	31,478,274	30,992,722
Accumulated depreciation	8,260,374	7,082,595
Net Property and Equipment	23,217,900	23,910,127
TOTAL ASSETS	26,034,789	25,946,674
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	525,066	458,951
Accounts payable	259,584	378,190
Accrued payroll, benefits, and related taxes	282	29,024
Deferred revenue	1,437	21,978
Accrued interest	8,984	10,357
Other accrued expenses	1,888	15,567
Total Current Liabilities	797,241	914,067
LONG-TERM LIABILITIES		
Long-term debt	26,997,901	27,102,861
TOTAL LIABILITIES	27,795,142	28,016,928
NET ASSETS WITHOUT DONOR RESTRICTION	(1,760,353)	(2,070,254)
TOTAL LIABILITIES AND NET ASSETS	26,034,789	25,946,674

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, 2020

	Without Donor Restriction	With Donor Restriction	<u>Total</u>
PUBLIC SUPPORT AND REVENUE:			
Federal grants	1,751,179	0	1,751,179
Non-federal grants	1,216,431	0	1,216,431
State education support	10,203,726	0	10,203,726
Contributions	16,505	0	16,505
Other income	41,467	0	41,467
Heroes Hangout	48,242	0	48,242
Student fees	190,991	0	190,991
In-kind donations	13,600	0	13,600
Total Revenue	13,482,141	0	13,482,141
EXPENSES			
Program Services:			
High School	3,856,121	0	3,856,121
Middle School	2,520,196	0	2,520,196
Primary School	5,365,554	0	5,365,554
Total Program Services	11,741,871	0	11,741,871
Management and General	1,430,369	0	1,430,369
Total Expenses	13,172,240	0	13,172,240
CHANGE IN NET ASSETS	309,901	0	309,901
NET ASSETS, BEGINNING OF YEAR	(2,070,254)	0	(2,070,254)
NET ASSETS, END OF YEAR	(1,760,353)	0	(1,760,353)

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, 2019

	Without Donor Restriction	With Donor Restriction	<u>Total</u>
PUBLIC SUPPORT AND REVENUE:			
Federal grants	1,686,415	0	1,686,415
Non-federal grants	842,921	0	842,921
State education support	9,746,883	0	9,746,883
Contributions	7,215	0	7,215
Debt forgiveness income	450,000	0	450,000
Rent	500	0	500
Other income	39,145	0	39,145
Heroes Hangout	56,721	0	56,721
Student fees	222,261	0	222,261
In-kind donations	16,000	0	16,000
Total Revenue	13,068,061	0	13,068,061
EXPENSES			
Program Services:			
High School	4,120,072	0	4,120,072
Middle School	2,400,995	0	2,400,995
Primary School	5,314,188	0	5,314,188
Total Program Services	11,835,255	0	11,835,255
Management and General	1,347,572	0	1,347,572
Total Expenses	13,182,827	0	13,182,827
CHANGE IN NET ASSETS	(114,766)	0	(114,766)
NET ASSETS, BEGINNING OF YEAR	(1,955,488)	0	(1,955,488)
NET ASSETS, END OF YEAR	(2,070,254)	0	(2,070,254)

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, 2020

	<u>Program Services</u>				<u>Supporting</u>	<u>Total</u>
	<u>High</u>	<u>Middle</u>	<u>Primary</u>	<u>Total</u>	<u>Services</u>	
	<u>School</u>	<u>School</u>	<u>School</u>		<u>Management</u>	
					<u>and General</u>	
Salaries and wages	1,846,306	1,527,710	2,761,264	6,135,280	819,756	6,955,036
Employee benefits	324,218	273,811	546,318	1,144,347	117,760	1,262,107
Payroll taxes	136,541	112,206	208,872	457,619	61,573	519,192
Advertising expense	0	0	0	0	41,863	41,863
Bank charges	2	0	0	2	996	998
Information technology	6,444	4,115	11,049	21,608	6,142	27,750
Insurance	0	0	0	0	98,278	98,278
Interest expense	148,498	0	149,473	297,971	0	297,971
Student transportation	9,232	4,969	8,361	22,562	0	22,562
Equipment	0	0	441	441	0	441
Supplies	197,234	131,020	164,497	492,751	24,263	517,014
Other	21,590	10,040	8,848	40,478	17,783	58,261
Professional fees	211,458	147,574	225,162	584,194	237,874	822,068
Rent	13,927	10,451	19,906	44,284	0	44,284
Repairs and maintenance	58,529	32,333	60,390	151,252	0	151,252
Travel	2,162	164	494	2,820	1,554	4,374
Office expense	6,592	4,918	11,670	23,180	0	23,180
Food cost	222,532	165,852	331,086	719,470	2,527	721,997
Occupancy	128,502	93,633	203,138	425,273	0	425,273
Depreciation	522,354	1,400	654,585	1,178,339	0	1,178,339
Total Functional Expenses	3,856,121	2,520,196	5,365,554	11,741,871	1,430,369	13,172,240

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, 2019

	<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	1,961,431	1,428,591	2,655,181	6,045,203	742,661	6,787,864
Employee benefits	383,819	268,680	539,018	1,191,517	150,400	1,341,917
Payroll taxes	134,931	110,395	205,702	451,028	84,399	535,427
Advertising expense	0	0	0	0	50,623	50,623
Bank charges	237	234	277	748	1,376	2,124
Information technology	6,280	4,080	15,137	25,497	9,293	34,790
Insurance	0	0	0	0	102,766	102,766
Interest expense	155,616	0	151,192	306,808	0	306,808
Student transportation	13,881	6,172	11,012	31,065	0	31,065
Equipment	15,847	9,477	22,286	47,610	22,315	69,925
Supplies	234,824	108,204	209,020	552,048	17,673	569,721
Other	20,546	6,676	7,022	34,244	4,283	38,527
Professional fees	157,172	127,915	162,732	447,819	155,258	603,077
Property taxes	1,023	0	194	1,217	0	1,217
Rent	34,119	24,661	57,776	116,556	0	116,556
Repairs and maintenance	42,270	30,956	69,832	143,058	0	143,058
Travel	19,143	10,284	7,559	36,986	3,790	40,776
Bad debt expense	20,000	0	0	20,000	0	20,000
Office expense	3,458	2,584	5,716	11,758	17	11,775
Food cost	208,639	154,670	310,307	673,616	2,352	675,968
Occupancy	133,182	98,568	208,820	440,570	0	440,570
Staff development and recruitment	8,577	7,520	17,447	33,544	366	33,910
Depreciation	565,077	1,328	657,958	1,224,363	0	1,224,363
Total Functional Expenses	4,120,072	2,400,995	5,314,188	11,835,255	1,347,572	13,182,827

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	309,901	(114,766)
Adjustments to reconcile change in assets to net cash from operating activities:		
Depreciation	1,178,339	1,224,363
Donated property	(10,000)	0
Loss on disposal of property and equipment	14,571	0
Bad debt expense	0	20,000
Debt forgiveness income	0	(450,000)
Adjustments for changes in operating assets and liabilities:		
Accounts receivable	(25,268)	198,978
Grants receivable	123,648	(436,017)
Note receivable	0	20,000
Prepaid expenses	8,540	22,083
Inventory	15,834	2,689
Accounts payable	(118,606)	265,148
Accrued payroll, benefits, and related taxes	(28,742)	28,498
Deferred revenue	(20,541)	(55,541)
Accrued interest	243,251	242,770
Other accrued expenses	(13,679)	(11,459)
Net Cash Flows from Operating Activities	1,677,248	956,746
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(490,683)	(190,306)
Net Cash Flows used in Investing Activities	(490,683)	(190,306)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	541,715	8,186
Principal payments on long-term debt	(825,184)	(644,870)
Net Cash Flows used in Financing Activities	(283,469)	(636,684)
CHANGE IN CASH	903,096	129,756
CASH AT BEGINNING OF YEAR	422,638	292,882
CASH AT END OF YEAR	1,325,734	422,638
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS		
Interest paid	54,720	64,038

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

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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, 2020 and 2019, 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 (GAAP) on the accrual basis of accounting.

The School adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, which sets standards for reporting on financial statements of not-for-profit organizations. ASC 958-205 requires the classification and presentation of net assets in two categories: net assets with donor restrictions and net assets without donor restriction.

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the School. These net assets may be used at the discretion of the School's management and board of directors.

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the School or by the passage of time. Other donor restrictions are perpetual in nature, were by the donor has stipulated the funds be maintained in perpetuity.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

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

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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, 2020 or 2019. 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 as current support at their estimated fair value 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, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service. The School reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. The School received donated land with an estimated fair market value of \$10,000 during the year ended June 30, 2020. There were no donated assets for the year ended December 31, 2019.

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, 2020 and 2019 was \$1,178,339 and \$1,224,363, respectively. Construction in progress of \$0 and \$27,004 was not depreciated as of June 30, 2020 and 2019, respectively.

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

Buildings	39 years
Office furniture and equipment	7 years
Computer hardware and software	3 years

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.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

The School records contributions, including promises to give, 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.

Contributions received are considered to be available for current 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 support that increases net assets with donor restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are received. Contributions primarily consist of debt forgiveness by the School's founder.

DONATED SERVICES AND MATERIALS

In order to recognize donated services as contributions in the School'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. In-kind donations on the Statements of Activities represent services received from the founder's attorney.

Material gift-in-kind items used in the School'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.

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, 2020 and 2019 were \$41,863 and \$50,623, respectively.

FUNCTIONAL EXPENSES

The costs of providing the program and other activities have been summarized on a functional basis in the Statements of Activities. Costs are directly assigned to program or management and general based on the nature of the cost. There were no fundraising expenditures for the years ended June 30, 2020 or 2019.

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).

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

The Income Taxes Topic FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. ASC 740 requires an entity 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 entity 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 2016 through 2018 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. Virtually all of the School's outstanding grants receivable was due from federal grant agencies as of June 30, 2020 and 2019.

NEW ACCOUNTING PRONOUNCEMENT

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The standard was intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. ASU 2018-08 is effective for resource recipients for annual periods beginning after December 15, 2018. The School adopted ASU 2018-08 for the fiscal year ended June 30, 2020. The adoption of this ASU did not result in any material changes in the accounting for contributions received.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School adopted the ASU and adjusted the presentation of these statements to comply with this ASU in the year ended June 30, 2019.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

FUTURE ACCOUNTING PRONOUNCEMENTS

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and later, various subsequent amendments (collectively “ASC 606”). This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition, including industry-specific guidance. ASC 606 requires that revenue is recognized when a customer obtains control of a good or service, which is when a customer has the ability to direct the use of and obtain benefits of the good or service. ASC 606 was scheduled to be effective for fiscal years beginning after December 15, 2018. However, on May 20, 2020, the FASB delayed the effective date of ASC 606 to annual reporting periods beginning after December 15, 2020 if an entity's financial statements for 2019 were not yet issued as of that date. The School has not adopted ASC 606 for the fiscal year ended June 30, 2020.

The School has not yet implemented ASU 2016-02, *Leases (Topic 842)* which was issued by FASB in February 2016. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Lessor accounting will not fundamentally change. Operating lease income will be recognized on a straight-line basis over the lease term. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. The School is in the process of assessing the effect of this ASU on these financial statements.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The School has working capital of \$2,019,648 and \$1,122,480 and average days cash on hand of 40 and 13 as of December 31, 2020 and 2019, respectively.

The table below represents financial assets available for general expenditures within one year at December 31:

	<u>2020</u>	<u>2019</u>
Cash	1,325,734	422,638
Accounts receivable	129,255	103,987
Grants receivable	1,290,933	1,414,581
Financial assets available to meet general expenditures within one year:	2,745,922	1,941,206

The School does not have any restricted net assets. The School's founder periodically provides financial support to the School as necessary.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 3 - LONG-TERM DEBT

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

	<u>2020</u>	<u>2019</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.	15,759,616	15,602,613
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.	8,666,642	8,579,021
Note payable to Crescent Michiana Properties, LLC, in monthly installments of \$8,520, including interest at 7.25% per annum through December 2021. The note is secured by land and building property and is guaranteed by the Garatoni Family Foundation.	129,564	218,862
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.	1,784,384	2,058,914
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.	655,000	675,000
Note payable to the City of South Bend which required interest only monthly payments through October 2017, at which time monthly principal payments commenced. 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, 2020. The note is secured by technology equipment and related technology infrastructure purchased with the proceeds of the note.	296,480	319,428
Note payable to Providence Capital Network, LLC in the original amount of \$200,000. The note is payable in annual installments of \$54,993, including interest charged at 3.98% through July 2020. The note is secured by technology equipment purchased with the proceeds of the note.	55,799	107,974

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Note payable to Providence Capital Network, LLC in the original amount of \$241,715. The note is payable in annual installments of \$66,233, including interest charged at 6.48% through July 2022. The note is secured by technology equipment purchased with the proceeds of the note.	175,482	0
Total	27,522,967	27,561,812
Current portion of long-term debt	525,066	458,951
Net long-term debt	26,997,901	27,102,861

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

2022	411,373
2023	382,600
2024	323,701
2025	327,548
Thereafter	25,552,679
Total	26,997,901

Interest expense for the years ended June 30, 2020 and 2019 was \$297,971 and \$306,808, including \$244,624 and \$246,586 that is aggregated into the notes due to the Garatoni Family Foundation and Larry Garatoni at June 30, 2020 and 2019, respectively.

Subsequent to year end, the School entered into two new borrowing arrangements that increased debt by approximately \$3,000,000. Approximately \$1,200,000 of that debt may be forgiven in the future if the School adheres to the terms of the debt set forth by the CARES Act. The table above does not reflect the borrowings or future repayments of the new debt. Refer to Note 9 for additional details.

NOTE 4 - OPERATING LEASES

The School leases certain items of equipment under operating leases. In June 2019, the School terminated equipment leases that provided for monthly lease payments in the amount of \$3,254 through July 2020. The early termination cost was \$45,554. The School entered into a new equipment lease with an unrelated third party in August 2019 requiring monthly payments of \$1,910 through July 2024. Lease expense under operating leases was \$21,005 and \$39,046 for each of the years ended June 30, 2020 and 2019, respectively.

NOTE 5 - 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 \$0 and \$450,000 from The Garatoni Family Foundation in the years ended June 30, 2020 and 2019, respectively.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 - 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 ended June 30, 2019. The required contribution amount was reduced to 5.5% by the state of Indiana as of July 1, 2019. 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 contributed 7.5% of compensation to the 401(k) plan through December 2019, at which time the School also reduced the 401(k) contribution to 5.5%.

Substantially all full-time employees are eligible to participate in either plan. Retirement expense under both plans was \$348,493 and \$415,324 for the years ended June 30, 2020 and June 30, 2019, 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 GAAP, 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 Statements 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 Statements of Financial Position was \$235,676 at both June 30, 2020 and 2019.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 8 - COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the School’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation and the impact on its financial condition, liquidity, tenants, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020. The School was required to cease on-site learning in March 2020 and has operated e-learning classes when necessary based on requirements of state and local government agencies. On-site learning resumes when possible.

Although the School cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the School's results of future operations, financial position, and liquidity for the fiscal year ending June 30, 2021.

NOTE 9 - SUBSEQUENT EVENTS

The School has evaluated subsequent events through March 11, 2021, the date the financial statements were available to be issued. Subsequent to year end, the School completed construction on a new wing of the Career Academy building. The space in the new wing houses four classrooms, a soundproof band room, a conference room, a common area at a total cost of \$2,019,077. The new wing was funded by \$1,860,000 of new debt payable to the Garatoni-Smith Family Foundation. The note is payable over a five year term beginning January 15, 2021 and bears interest at 3%. The School also received a Paycheck Protection Program (PPP) loan through 1st Source Bank in the amount of \$1,165,500. The noted dated 8/7/2020 has a five year term and bears interest at 1%. No other events or transactions occurred during this period which require 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, 2020 and 2019, and our report thereon dated March 11, 2021, 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,

A handwritten signature in blue ink that reads 'Kruggel, Lawton & Company LLC'.

Certified Public Accountants

Elkhart, Indiana
March 11, 2021

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

STATEMENT OF FINANCIAL POSITION BY DIVISION

June 30, 2020

(with comparative totals at June 30, 2019)

(See Independent Auditor's Report on Supplementary Information)

<u>ASSETS</u>	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>2020</u>	<u>2019</u>
CURRENT ASSETS							
Cash	(873,607)	3,200,101	4,823,956	(5,824,716)	0	1,325,734	422,638
Accounts receivable	6,751	(13,628)	53,224	82,908	0	129,255	103,987
Grants receivable	262,867	358,317	671,358	(1,609)	0	1,290,933	1,414,581
Prepaid expenses	16,147	12,113	22,913	15,637	0	66,810	75,350
Inventory	711	1,874	1,572	0	0	4,157	19,991
Total Current Assets	(587,131)	3,558,777	5,573,023	(5,727,780)	0	2,816,889	2,036,547
PROPERTY AND EQUIPMENT							
Land	243,200	0	143,000	0	0	386,200	376,200
Buildings	12,232,747	11,016	13,780,938	0	0	26,024,701	26,012,518
Office furniture, equipment and vehicles	1,653,251	11,158	1,371,432	0	0	3,035,841	2,845,435
Computers and software	881,797	0	1,149,735	0	0	2,031,532	1,731,565
Construction in progress	0	0	0	0	0	0	27,004
Total	15,010,995	22,174	16,445,105	0	0	31,478,274	30,992,722
Accumulated depreciation	4,692,747	2,728	3,564,899	0	0	8,260,374	7,082,595
Net Property and Equipment	10,318,248	19,446	12,880,206	0	0	23,217,900	23,910,127
TOTAL ASSETS	9,731,117	3,578,223	18,453,229	(5,727,780)	0	26,034,789	25,946,674

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

STATEMENT OF FINANCIAL POSITION BY DIVISION

June 30, 2020

(with comparative totals at June 30, 2019)

(See Independent Auditor's Report on Supplementary Information)

	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>2020</u>	<u>2019</u>
<u>LIABILITIES AND NET ASSETS</u>							
CURRENT LIABILITIES							
Current portion of long-term debt	150,855	0	374,211	0	0	525,066	458,951
Accounts payable	103,925	49,327	53,227	53,105	0	259,584	378,190
Accrued payroll, benefits, and related taxes	114	0	116	52	0	282	29,024
Deferred revenue	592	232	613	0	0	1,437	21,978
Accrued interest	0	0	8,984	0	0	8,984	10,357
Other accrued expenses	0	0	0	1,888	0	1,888	15,567
Total Current Liabilities	255,486	49,559	437,151	55,045	0	797,241	914,067
LONG-TERM LIABILITIES							
Long-term debt	12,538,095	0	14,459,806	0	0	26,997,901	27,102,861
Total Long-Term Liabilities	12,538,095	0	14,459,806	0	0	26,997,901	27,102,861
TOTAL LIABILITIES	12,793,581	49,559	14,896,957	55,045	0	27,795,142	28,016,928
UNRESTRICTED NET ASSETS							
Total Net Assets	(3,062,464)	3,528,664	3,556,272	(5,782,825)	0	(1,760,353)	(2,070,254)
TOTAL LIABILITIES AND NET ASSETS	9,731,117	3,578,223	18,453,229	(5,727,780)	0	26,034,789	25,946,674

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

STATEMENT OF ACTIVITIES BY DIVISION

For the Year Ended June 30, 2020 (with comparative totals for the Year Ended June 30, 2019)

(See Independent Auditor's Report on Supplementary Information)

	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>2020 Amount</u>	<u>2019 Amount</u>
REVENUES:							
Federal grants	445,833	463,452	841,894	0	0	1,751,179	1,686,415
Non-federal grants	319,248	337,801	559,382	0	0	1,216,431	842,921
State education support	2,729,120	2,725,026	4,749,580	0	0	10,203,726	9,746,883
Contributions	15,494	0	1,011	0	0	16,505	7,215
Debt forgiveness income	0	0	0	0	0	0	450,000
Rent	0	0	0	0	0	0	500
Other income	39,794	2,746,239	(2,744,569)	3	0	41,467	39,145
Heroes Hangout	0	0	48,242	0	0	48,242	56,721
Student fees	100,919	48,232	41,840	0	0	190,991	222,261
In-kind donations		0	0	13,600	0	13,600	16,000
Total Revenues	3,650,408	6,320,750	3,497,380	13,603	0	13,482,141	13,068,061
EXPENSES	3,856,127	2,520,196	5,365,548	1,430,369	0	13,172,240	13,182,827
CHANGE IN NET ASSETS	(205,719)	3,800,554	(1,868,168)	(1,416,766)	0	309,901	(114,766)
NET ASSETS, BEGINNING OF YEAR	(2,856,745)	(271,890)	5,424,440	(4,366,059)	0	(2,070,254)	(1,955,488)
NET ASSETS, END OF YEAR	(3,062,464)	3,528,664	3,556,272	(5,782,825)	0	(1,760,353)	(2,070,254)

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

STATEMENT OF EXPENSES BY DIVISION

For the Year Ended June 30, 2020 (with comparative totals for the Year Ended June 30, 2019)

(See Independent Auditor's Report on Supplementary Information)

	<u>High School</u>	<u>Middle School</u>	<u>Primary School</u>	<u>Central Office</u>	<u>Eliminations</u>	<u>2020 Amount</u>	<u>2019 Amount</u>
Salaries and wages	1,846,306	1,527,710	2,761,264	819,756	0	6,955,036	6,787,864
Employee benefits	324,218	273,811	546,318	117,760	0	1,262,107	1,341,917
Payroll taxes	136,541	112,206	208,872	61,573	0	519,192	535,427
Advertising expense	0	0	0	41,863	0	41,863	50,623
Bank charges	2	0	0	996	0	998	2,124
Information technology	6,444	4,115	11,049	6,142	0	27,750	34,790
Insurance	0	0	0	98,278	0	98,278	102,766
Interest expense	148,498	0	149,473	0	0	297,971	306,808
Student transportation	9,232	4,969	8,361	0	0	22,562	31,065
Equipment	0	0	441	0	0	441	69,925
Supplies	197,234	131,020	164,497	24,263	0	517,014	569,721
Other	21,590	10,040	8,848	17,783	0	58,261	38,527
Professional fees	211,458	147,574	225,162	237,874	0	822,068	603,077
Property taxes	0	0	0	0	0	0	1,217
Rent	13,927	10,451	19,906	0	0	44,284	116,556
Repairs and maintenance	58,529	32,333	60,390	0	0	151,252	143,058
Travel	2,162	164	494	1,554	0	4,374	40,776
Bad debt expense	0	0	0	0	0	0	20,000
Office expense	6,592	4,918	11,670	0	0	23,180	11,775
Food cost	222,532	165,852	331,086	2,527	0	721,997	675,968
Occupancy	128,508	93,633	203,132	0	0	425,273	440,570
Staff development and recruitment	0	0	0	0	0	0	33,910
Depreciation	522,354	1,400	654,585	0	0	1,178,339	1,224,363
Total Expenses	3,856,127	2,520,196	5,365,548	1,430,369	0	13,172,240	13,182,827

FEDERAL AWARDS

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2020

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	K397	164,085	0
COVID-19 School Breakfast Program	10.553	K397	42,569	0
Total School Breakfast Program			206,654	0
National School Lunch Program	10.555	K397	303,375	0
COVID-19 National School Lunch Program	10.555	K397	73,323	0
National School Lunch Program Commodities - Food	10.555	K397	21,094	0
After School Hours Snack Program	10.555	K397	50,643	0
Total National School Lunch Program			448,435	0
Total Child Nutrition Cluster			655,089	0
Child and Adult Care Food Program				
Child and Adult Care Food Program	10.558	K397	87,660	0
Total Child and Adult Care Food Program			87,660	0
National School Lunch Program Equipment Assistance Grant				
Child Nutrition Discretionary Grants Limited Availability	10.579	K397	30,000	0
Total National School Lunch Program Equipment Assistance Grant			30,000	0
Total Department of Agriculture			772,749	0
Department of Education				
Passed-through the Indiana Department of Education				
Title I, Part A				
Title I Grants to Local Educational Agencies	84.010	S010A180014	8,163	0
Title I Grants to Local Educational Agencies	84.010	S010A190014	146,789	0
Title I Grants to Local Educational Agencies	84.010	S010A190014	309,352	0
Title I Grants to Local Educational Agencies	84.010	S010A190014	93,903	0
Total Title I, Part A			558,207	0
Title II, Part A Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)				
Title II, Part A Supporting Effective Instruction State Grants	84.367A	S367A170013	3,546	0
Title II, Part A Supporting Effective Instruction State Grants	84.367A	S367A180013	12,528	0
Title II, Part A Supporting Effective Instruction State Grants	84.367A	S367A170013	7,778	0
Title II, Part A Supporting Effective Instruction State Grants	84.367A	S367A180013	13,058	0
Title II, Part A Supporting Effective Instruction State Grants	84.367A	S367A170013	1,426	0
Title II, Part A Supporting Effective Instruction State Grants	84.367A	S367A180013	5,894	0
Total Title II, Part A			44,230	0
Title IV, Part A Student Support and Academic Enrichment Program				
Student Support and Academic Enrichment Program	84.424	S424A180015	8,281	0
Student Support and Academic Enrichment Program	84.424	S424A190015	3,103	0
Student Support and Academic Enrichment Program	84.424	S424A180015	20,595	0
Student Support and Academic Enrichment Program	84.424	S424A190015	2,949	0
Student Support and Academic Enrichment Program	84.424	S424A190015	10,000	0
Total Title IV, Part A			44,928	0

See accompanying notes to Schedule of Expenditures of Federal Awards.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Education (Continued)				
Passed-through the Indiana Department of Education				
Special Education Cluster (IDEA)				
Special Education-Grants to States, (IDEA, Part B)	84.027	20611-544-PN01	134,751	0
Special Education-Grants to States, (IDEA, Part B)	84.027	20611-544-PN01	95,470	0
Special Education-Grants to States, (IDEA, Part B)	84.027	20611-544-PN01	63,170	0
Total Special Education-Grants to States (IDEA, Part B)			293,391	0
Special Education-Preschool Grants (IDEA, Preschool)	84.173	20619-544-PN01	4,548	0
Total Special Education Cluster IDEA			297,939	0
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act				
COVID-19 Elementary & Secondary School Emergency Relief (ESSER) Fund	84.425D	S425D200013	3,538	0
COVID-19 Elementary & Secondary School Emergency Relief (ESSER) Fund	84.425D	S425D200013	1,854	0
COVID-19 Elementary & Secondary School Emergency Relief (ESSER) Fund	84.425D	S425D200013	2,472	0
Total COVID-19 Elementary & Secondary School Emergency Relief (ESSER) Fund			7,864	0
Total Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act			7,864	0
Total Department of Education			953,168	0
Department of Health and Human Services				
Passed through Indiana Family and Social Services				
Medicaid Cluster				
Medical Assistance Program (Medicaid; Title XIX)	93.778	1487048005	10,257	0
Medical Assistance Program (Medicaid; Title XIX)	93.778	1487048005	7,684	0
Medical Assistance Program (Medicaid; Title XIX)	93.778	1487048005	7,321	0
Total Medical Assistance Program			25,262	0
Total Medicaid Cluster			25,262	0
Total Department of Health and Human Services			25,262	0
Total Expenditures of Federal Awards			1,751,179	0

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, 2020

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, 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.

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.

NOTE 3 - NONCASH AWARDS

The accompanying Schedule includes federal awards under the National School Lunch Program in the amount of \$21,094 that represent food commodities received through the US Department of Agriculture.

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, 2020, 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 11, 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.

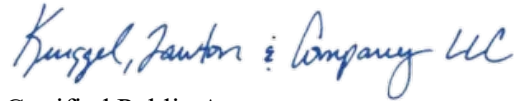
Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001.

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 11, 2021



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, 2020. The School's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

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 each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-003. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

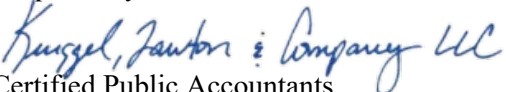
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that will not be identified. We did identify a certain deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2020-002 that we consider to be a material weakness.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,


Certified Public Accountants

Elkhart, Indiana
March 11, 2021

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2020

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?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	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
84.010	Title I Grants to Local Educational Agencies
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster

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, 2020

Section II - Financial Statement Findings

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2020-001 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 charters.

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 2019-002 in the audit of the financial statements for the year ended June 30, 2019.

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, 2020

Section III - Federal Award Findings and Questioned Costs

MATERIAL WEAKNESS

2020-002 WRITTEN FEDERAL PROCEDURES

Federal Agency: Department of Agriculture, Department of Education

Federal Program or Cluster: Child Nutrition Cluster
Title I Grants to Local Educational Agencies

CFDA Number: 10.553, 10.555, 84.010

Federal Award Numbers and Years: Award Period 7/1/2019-6/30/2020: K397
Award Periods 7/1/2018-6/30/2019 and 7/1/2019-6/30/2020: S010A180014,
18611-001-PN01
Year ended June 30, 2020

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 2019-003 in the audit of the financial statements for the year ended June 30, 2019.

View of Responsible Officials and Planned Corrective Actions: Management agrees with the finding. The necessary written documentation to comply with the Uniform Guidance will be prepared by December 31, 2021.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2020

Section III - Federal Award Findings and Questioned Costs

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2020-003 CASH MANAGEMENT

Federal Agency: Department of Agriculture
Federal Program or Cluster: Child Nutrition Cluster
CFDA Number: 10.553, 10.555
Federal Award Numbers and Years: Award Period 7/1/2019-6/30/20: K397

Condition: The School's food service account balance exceeded the allowable average three months of operating expenses at June 30, 2020.

Criteria: The USDA requires that the ending balance of the nonprofit school food service account does not exceed three months' average of operating expenses. If an excess fund balance should occur, the School Food Authority ("SFA") will be required to develop a spending plan for reducing the balance to an acceptable level during the following school year. The plan must be submitted to the Indiana Department of Education, School Finance Division, prior to approval of the Annual Financial Report ("AFR"), Form 9.

Cause: During the 2020 fiscal year, the School's revenues exceeded expenditures, such that, when added to the opening fund balance, the final fund balance caused the fund to be in non-compliance.

Effect: The School's Form 9 could not be approved until a spending plan was provided to the Indiana Department of Education.

Recommendation: Review the school's food service account regularly to avoid excess cash balances.

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

View of Responsible Officials and Planned Corrective Actions: The School has already reviewed the circumstances surrounding this occurrence and is cognizant of the corrective action.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2020

SIGNIFICANT DEFICIENCY

2019-001 DOCUMENT RETENTION

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

We were unable to verify support for one school lunch and one food service cash receipt transaction.

Recommendation: The School should review best practice guidelines pertaining to document retention and implement the necessary controls.

Current Status: The School is still working on a policy as part of its undertaking to establish comprehensive internal control documentation over federal programs.

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2019-002 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: Management has begun implementing policies and procedures to comply with the uniform compliance requirements established by the State Board of Accounts and will continue to work toward total compliance.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2020

MATERIAL WEAKNESS

2019-003 WRITTEN FEDERAL PROCEDURES

Federal Agency: Department of Education
Federal Program or Cluster: Title I Grants to Local Educational Agencies
Special Education Cluster
CFDA Number: 84.010
84.027, 84.173
Federal Award Numbers and year Award Period 7/1/2018-6/30/2019:
S010A180014
Award Period 8/1/2018-9/30/20:
19611-544-PN01 (2019), 19619-588-PN01 (2019)

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 School is still working on establishing comprehensive internal control documentation over federal programs.

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2019-004 LATE FILING OF REPORTING PACKAGE TO FEDERAL AUDIT CLEARINGHOUSE

Federal Agency: Department of Education
Federal Program or Cluster: Title I Grants to Local Educational Agencies, Special Education Cluster
CFDA Number: 84.010
84.027, 84.173
Federal Award Numbers and year Award Period 7/1/2018-6/30/2019:
S010A180014
Award Period 7/1/2018-9/30/2020:
19611-544-PN01 (2019), 19619-588-PN01 (2019)

Condition: The reporting package due March 31, 2020 was submitted late.

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

Current Status: The School will be back on track and filing on time when the June 30, 2020 audit is completed prior to March 31, 2021.

CAREER ACADEMY OF SOUTH BEND, INC.

South Bend, Indiana

OTHER REPORT

For the Year Ended June 30, 2020

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*.



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CORRECTIVE ACTION PLAN

Cognizant or Oversight Agency for Audit: Department of Education

Career Academy of South Bend, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2020.

Name and address of independent public accounting firm:

Kruggel, Lawton & Company, LLC
210 S. Michigan St, Ste 200
South Bend, IN 46601

Audit period: July 1, 2019 – June 30, 2020

The findings from the 2020 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. The business manager, Kim Richardson, will be responsible for the corrective actions.

FINDINGS—FINANCIAL STATEMENT AUDIT

NONCOMPLIANCE WITH LAWS AND REGULATIONS

2020-001 Uniform Compliance Guidelines – State Board of Accounts

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

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

FINDINGS—DEPARTMENT OF EDUCATION AUDIT

MATERIAL WEAKNESS

2020-002 Child Nutrition Cluster – CFDA No. 10.553 and 10.555. Title I Grants to Local Educational Agencies—CFDA No. 84.010.

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

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding. The necessary written documentation to comply with the Uniform Guidance will be prepared by December 31, 2021.



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NONCOMPLIANCE WITH LAWS AND REGULATIONS

2020-003 Child Nutrition Cluster —CFDA No. 10.553 and 10.555.

Recommendation: Management should review the school's food service account regularly to avoid excess cash balances.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and have already reviewed the circumstances surrounding this occurrence and is cognizant of the corrective action.

Sincerely,

A handwritten signature in blue ink that reads "Kim Richardson".

Kim Richardson,
Business Manager